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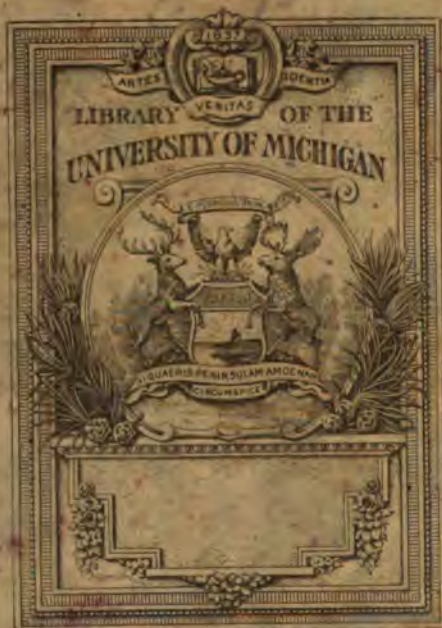
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# The Canadian Bankers' Association

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# JOURNAL

## OF THE

# CANADIAN BANKERS'

# ASSOCIATION

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OCTOBER—1903

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### EDITORIAL.

The Alaskan boundary question has evidently drawn the attention of our representatives at Ottawa to the necessity of removing all doubt as to Canadian rights in the Labrador region.

**Labrador.** Mr. A. P. Lowe, of the Geological Survey Department, who has knowledge born of exploration in the far north, who knows the Ungava Bay district, and is familiar with the Hudson Bay coast, is in charge of a Dominion Government expedition, lately fitted out at Halifax by the Department of Marine and Fisheries. With the gallant explorer sailed a small contingent of the hardy and useful Northwest Mounted Police, and with their assistance Mr. Lowe is expected to make known to all men that there will be no future dispute as to the boundaries of our possessions in the Labrador.

Captain Moodie and his men of the N.W.M.P. may be relied upon to impress upon the squatters of any and every nationality now in the Hudson Bay Territory, that the land they live in is part and parcel of the Dominion of Canada.

Those who accept the figures of the Canadian Clearing Houses as an indication of the condition of trade and commerce, should not regard the marked reduction in the September clearings as a sign of a corresponding falling off in the volume of business. To the complete stagnation in the stock markets may be attributed in no small degree the unfavorable comparison of the clearings of 1903 with those of last year.

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In this issue of the JOURNAL we produce a table compiled from the figures furnished monthly to the Association by the chartered banks. It will be observed that the increase in the amount of notes in circulation at the close of August over the total for the corresponding month of last year, is less than the addition made to the paid-up capital of the banks during the same period.

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The figures of the table showing the present condition of the circulation of notes issued by our chartered banks, ought to be reassuring and comforting to those who doubt if the money possible of issue will always prove adequate to the requirements of the country. The Executive Council of the Canadian Bankers' Association, when grappling with this important question last year, signified in no uncertain language the method favoured by them should time produce such an emergency as a dearth of currency. In the annual report of that body, the members were told that the Council could then "see no reason for any deviation from that provision of the Bank Act which limits the circulation of the banks to the amount of their paid-up capital."

Acting upon this sound advice, the bankers evidently intend to supply all the required currency by additions to the banking capital of the country, and during the past twelve months nearly eight million dollars worth of new stock has been allotted to and paid for by shareholders of established banks. In the same period of time, the increase in circulation has been less than six millions.

When Mr. James B. Forgan, President of the First National Bank, Chicago, and chairman of the Clearing House in that city, refers to the currency problem in the United

States as "a tough problem," it must be so. The ex-Canadian banker is not easily beaten, but he admits that his efforts to assist in improving the monetary situation are rendered abortive by the stubborn opposition encountered everywhere in the Western States to branch banking. In a recent discussion of the yearly stringency in our neighbours' money market, Mr. Forgan says:

"The principal source of alarm each fall is the weekly statements of the New York associated banks. They do much more harm than good. They serve to aggravate the conditions existing. To hear people talk when the reserves of the New York banks run low, you would think the money of the country had disappeared off the face of the earth. The total amount is unchanged, however, and is in better use for the country, if anything, when it is sent out West to move the crops. Uncle Sam simply moves his money from his city bank, where he has comparatively little need of it, to his country bank, where it will be very useful. How foolish it is, therefore, to measure the amount left in the city bank and get scared and not measure the amount in the country bank. That is exactly what the New York bank statements do.

"Now, if branch banking existed in this country as it does in Canada and England, and the country banks were branches of the city banks, a report on the cash and reserves of the city banks necessarily would include the money in the country banks and there would be no cause for alarm. Practically the same amount of money would be shown in all cases, only the place where it was being used would change.

"How best to improve, by currency legislation, the existing situation and make easier the annual shifting of funds and diminishing of money in the reserve centres, is a tough problem. I'll admit it is too hard for me to solve. I would never be in favor of an asset currency unless we had branch banking. Some of the other members of the Chicago committee are unalterably opposed to branch banking.

Surely there is something radically wrong somewhere, when the practical, hard-headed, president of the First National of Chicago is compelled to admit that the solution of a problem seemingly so simple is beyond him, owing to the "unalterable" conviction of his opponents that branch banking, even if good for the nation, would imperil their personal interests.

Perhaps, when the much needed change in financial legislation is made under pressure of public opinion, the men who will not now listen to arguments in favour of branch banking will view with contempt their opinions of to-day.



The frequent newspaper references to the Canadian Northwest as the granary of the British Empire, will not impress people who read emigration literature in the same suspicious mood with which they scan the promises of politicians, or the testimonials to patent medicines. But the delegates of the British Chambers of Commerce, who have been enabled to realize the truth behind the claim that Canada can supply the food requirements of the Motherland, will disseminate the truth regarding our country, and each and every one of them will prove of more value than tons of emigration pamphlets. Impressive and effective to a degree, beyond the conception of the people of Eastern Canada, to these gentlemen from the chief cities and manufacturing centres of Great Britain, must have been even a passing view of the "sea of golden grain" in the wonderful Northwest of this Dominion. Those entrusted with the entertainment of our guests may have done the best possible in wining and dining their brethren from across the ocean; but, when one reads of the silent delight of the guests of the Brandon Board of Trade as they were driven for miles through the yellow fields of Manitoba wheat, it seems almost a pity that so much time was consumed in the cities, and in the pleasures of the table.

However, we may rest assured, that, in the homes and offices of the delegates, long after the ordinary incidents of the meeting in Montreal of the Boards of Trade of the Empire are forgotten, the memories of our golden grain will make them eloquent advocates of emigration to the Canadian Northwest.

---

*"He seen his duty, a dead sure thing,  
And went for it thar and then." Hay.*

It is only a few weeks since a depressing story of desertion of drowning shipmates came from the lower St. Lawrence. An ugly tale it was, and with an ending calculated to shake one's faith in the survival of the splendid courage that enabled the heroes of the "Birkenhead" disaster, long years ago, to watch unmoved the departure of their ship's boats, while they, like the brave British soldiers they were, awaited death. But the alleged pitiable cowardice of a St. Lawrence skipper may well be forgotten when one

**The Loss of  
the "David  
Weston."**

reads of the noble conduct of the captain and crew of the steamer "David Weston," recently burned on the St. John River in New Brunswick. The river in question is one of the most beautiful on this continent, and has been called the Rhine of America. The "David Weston" carried passengers and freight for many years on the St. John. Much of the freight was carried forward on deck. It was probably a match thrown by some careless smoker which ignited the bales of hay carried by the "Weston" on her last voyage from Fredericton to St. John. In five minutes from the first alarm, the steamer was in flames from stem to stern. What followed is calculated to make New Brunswick thrill with pride.

The St. John river-men have always been known as courageous and resourceful, and the captain and crew of the "David Weston," when put to the test, displayed activity so dauntless, so valiant and heroic, that the world cannot surpass it. When all hope of saving the steamer had to be abandoned, *"through the hot black breath of the burning boat"* the captain's voice was heard ordering the mate, William Whelpley, to the wheel. The flames reached his shelter in the wheelhouse, but Whelpley, like Jim Bludsoe of fiction, stuck to the steering gear of the "Weston" until her *"nozzle"* was *"ag'in the bank."* Even then, this brave New Brunswicker did not seek safety in flight. Making his way forward where a number of helpless passengers were grouped on the upper deck, Whelpley, blistered and burned, assisted to lower everyone on board to the lower deck, from whence they dropped to the rocks below.

Then the mate of this old river steamer, followed by his equally plucky captain, Day by name, the last to leave his ship, sought safety on the shore.

Without any hope of gain, these brave New Brunswick river-men played the part of heroes, and for this we hold them in our love and honour, and hope that New Brunswick will be tender of the fame they well deserve.

Such heroism may well efface that other story of poor perishing souls who might have been saved had such men as Day and Whelpley been their messmates.

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That there should be "lengthy discussion" over the recent resolution introduced by the Minister of Justice, having

for its object the increasing of the salaries of judges, is not creditable to Canada, and the form of the criticism of the measure by those opposed thereto was in deplorably bad taste. Even if, by reason of insufficient material inducements, leaders of the Canadian Bar sometimes decline positions on the Bench, it is not calculated to elevate this country in the opinion of others to read in Hansard that a judgeship in Canada is one of the rewards conferred by Liberal and Conservative Governments alike for political services rendered, and that the administration of justice in this growing Dominion is in the hands of men who have earned preferment by something other than ability and the possession of eminently legal minds.

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Canadian bankers are proverbially free from political prejudice, and they are prone to maintain a discreet silence when an election campaign is being fought. No ordinary change of policy or party disturbs our bankers, or, at least, they do not permit their clients to extort from them any opinions upon the political issues of the day calculated to denote aught save indifference to the victory or defeat of contestants in the arena of politics.

But a proposal to change the existing fiscal policy of Great Britain needs the careful study and attention of every banker on both sides of the Atlantic. No theory, argument, or assumption must be ignored, when we are asked to contemplate a complete reversal of the trade policy of Great Britain, and as every reader of the BANKERS' JOURNAL may not have had the opportunity of reading the scholarly article in *The Fortnightly Review* for September, by Mr. J. A. Spender, entitled "Free Trade and its Fruits," we reproduce same in this number. Whatever may be thought of Mr. Spender's opinion of the policy of Mr. Chamberlain, it is pleasing to have a well-known writer in the *Fortnightly* absolutely declining to subscribe to the belief expressed by enterprising politicians that Canada will break away from the Empire if Mr. Chamberlain's proposals are rejected by his countrymen. Mr. Spender is undoubtedly right in refusing to regard our loyalty as the tender exotic that professional politicians would have the world suppose.

Too good to be improved upon are the caustic comments of a Scottish newspaper upon the periodical interference by our Dominion House of Commons in the domestic affairs of the British Isles. Lest some of our readers have not had the opportunity of perusing the racy request to our rulers to refrain from meddling in matters which concern them not, we publish elsewhere the article from the Glasgow Herald to which allusion has been made in several Canadian papers. However much a Canadian who has "a little Irish in him," may wince at being told that he has no concern in the wrongs of the Emerald Isle he cannot surely help admiring the polite and pointed reply of that Colonial Secretary, who, in reply to the first petition from Canada, sent twenty years ago, for local self-government for Ireland, said "Her Majesty will have regard to the advice of the Imperial Parliament and Ministry, to which all matters relating to the affairs of the United Kingdom exclusively appertain."

The old fashioned English courtesy of such a rebuke is simply delicious in these days.

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With the money market severely affected by the phenomenal shrinkage in stock values, and the consequent liquidation warranting one in expecting financial stringency, it is almost impossible to say aught of the outlook for the autumn. With the London money market disturbed by the recent serious fall in consols, and discount rates in the world's metropolis increased, it is not surprising to find our own banks on the alert and studying the horizon for signs of further disturbance.

**The Autumn Outlook.**

It is good to note a display of anxiety in doubtful weather, even if only for the assurance it affords that prudent men are at the helm of our financial affairs.

The marked improvement in the liquid assets of Canadian banks is a step in the right direction, and one at which the advocates of caution, and the prophets of prosperity past and hard times coming, will not be displeased.

Meanwhile it is gratifying to know that the reports received by the leading banks from their branches all over the Dominion give glad tidings from the harvest field, and, even

if the yield of grain per acre be less than last year, the increased area under cultivation will probably result in a yield of wheat and coarse grain nearly equal to that of 1902.

Predictions concerning the crops of Manitoba and the North-west Territories when made by the bank managers in that country have invariably proved accurate, and there is every reason to expect a bountiful harvest.

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The article contributed by Mr. E. L. Stewart-Patterson should be carefully studied both by bankers and their clients. The statistics furnished, and his keen analysis of the condition of things shown as the result of making a composite picture of the annual statements of thirteen of our leading banks, ought to obliterate many false impressions held by the general public, and also show some of his fellow bankers in Canada and the United States the error of their ways.

He pays a deserved compliment to the Canadian currency system, very rightly praising its elasticity, and claiming that it has hitherto proved equal to "all the exigencies of agriculture and commerce."

The advocates of greater attention being paid to the minor profits of our banks, will find in Mr. Patterson a sturdy supporter. He refers to the vast amount of work performed by the banks for their customers free of charge, and lays the blame where it belongs:—"to the unwise competition to obtain business at any cost which has lately developed in our midst." Continuing, he says: "The public naturally want all they can get, and a bank would find it a very difficult matter to convince a customer that his account with its small balance is an expense to a bank, in the face of specious invitations to deposit any sum, no matter how small, and draw three per cent. interest, compounded semi-annually." We venture to think that the writer of the article under review is correct, in regarding the modern form of advertising adopted by our banks as a bidding for business which will have to be abandoned later.

The avidity shown by banks in the pursuit of deposits, is rapidly giving the public a distorted view of the profits of banking, and the numerous charters for new banks granted during the present session of Parliament bear testimony to

this belief. In dealing with the subject of interest on deposits, Mr. Patterson fairly revels in the figures and facts which he can summon in support of the contention that the banker of the period is dealing with depositors in a spirit of altruism not displayed by the cautious and conservative founders of the Canadian banking system. In previous editorials in this Journal, attention has been drawn to the danger of holding high priced deposits.

In writing of the net profits of our chartered banks, Mr. Patterson comments upon a common custom of newspaper reviewers of the annual statements of banks which should be abandoned. To give as an indication of the earning power of a bank the percentage of its net profits to capital only is undoubtedly misleading, and smacks of advertising rather than financial reviewing. The proper criterion of the interest earned on a bank's liabilities to its proprietors, is unquestionably the percentage of net profits to capital and reserve inclusive.

While we do not altogether agree with Mr. Patterson, in thinking that some of our banks are being conducted as philanthropic institutions, few will be found to question that the first period of depression in the trade and commerce of this country will find many of our bankers seeking safety in the conservative, even if old fashioned, methods of their banking progenitors.

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The following charters have been granted during this session of Parliament to new banks: The Bank of Winnipeg (Winnipeg); the Crown Bank of Canada (extension); the City and County Bank of Canada (Ottawa); the **New Banks.** Northern Bank (Winnipeg); the Pacific Bank of Canada (Victoria); the Sterling Bank of Canada (London); the Home Bank of Canada (Toronto); the Citizens Bank of Canada (Toronto). How many of these will open their doors for business is difficult to determine.

Our friends in the United States create national banks by the dozen, while we are debating as to the necessity for any addition to the chartered institutions of the Dominion. But, the following extract from the Chicago Banker illustrates how small is the capital required to embark in the banking business across the border:—

"During August, 1903, there were chartered 36 national banks, with capital stock aggregating \$1,315,000, and bond deposit \$382,250.

Of this number 26 associations had a capital stock of less than \$50,000, aggregating \$665,000, and 10, capital stock of \$50,000 or more, aggregating \$650,000. Four of the associations, with combined capital of \$105,000, were conversions of state banks; 13, with aggregate capital of \$535,000, reorganizations of state and private banks, and 19, with aggregate capital of \$675,000, associations of primary origin.

From March 14, 1900, the date of approval of the act authorizing the establishment of banks with a minimum capital of \$25,000, to date, there have been organized 1,091 banks of that class, with capital aggregating \$23,478,000. During the same period 586 banks, with individual capital of \$50,000 or more, and aggregate capital of \$71,795,000, were organized. In all, there were chartered 1,677 banks, with aggregate capital stock of \$100,273,000.

A further subdivision shows that 937 associations, with capital of \$51,339,500, were of primary organization; 540, with capital of \$35,490,000, reorganizations of state or private banks, and 200, with capital of \$13,443,500, conversions of state banks, authorized by section 5154 of the Revised Statutes. On August 31, there were in existence 5,070 national banks, with authorized capital stock of \$769,277,095.

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In the July issue of the JOURNAL, the marked changes in the methods of conducting the business of banking were editorially discussed, and the St. John (N.B.) *Globe* in the course of a review of the article in question

As Others  
See Ua.

says: "The Canadian Bankers' Association Journal editorially considers the changes which have taken place in the banking business and it readily admits that there is a practice of 'hustling for deposits,' in the train of which there may be some evils, and it sighs at the thought that the days of decorous and quiet banking may be passing away. It strives, however, to resist the thought that it is no longer necessary "to discriminate between money and merchandise," and it declines to subscribe to the belief that the banker of the period "should resort to the same methods as those employed by the seller of ribbons and laces, lollipops and butter." But all trading is of the same character and nature, and the man who deals in coined gold, silver and bank notes must really be guided by the same honorable principles as those which animate the trader in silks or in butter. No doubt there may be a desire on the part of the banker to make people believe, or to deceive himself into the belief, that there is some special merit or virtue in what he buys and sells that makes his business superior to other kinds of business. If there be any difference at all, which is not a matter of certainty, it is in the trust usually reposed in the banker. Some recent occurrences may easily justify the impression that trusts of this

kind are not always well founded, and this feeling may be in the mind of our contemporary, for it says with what seems to be a sigh :

"Competition has never been so keen, nor have the inducements offered by our banks ever approached those at present held out to prospective customers. Some of the reflections which naturally suggest themselves to the mind, as we read and hear of reckless banking methods, are not pleasant, and, as we contemplate the peril which has to be faced by those who entrust their savings to men who have to "get deposits at a profit if possible, but to get them anyway," we think with regret and deserved admiration of the methods of the bankers of other days."

Following the article from which the above is an extract, is one in which the banks are strongly advised to look after what are called "minor profits," which means various petty methods by which money may be gathered in. One of these is a suggested general agreement "embracing a minimum charge upon all returned items accepted or unaccepted," and a "stipulation that all existing contracts between banks for free collecting be cancelled." Also, "that banks should see to it that clerical work, stationery and stamps are paid for by customers." Perhaps there can be no legitimate objection to any of these things, but their united smallness suggests that they ought not to be made obtrusively obvious."

The editor of the *St. John Globe* surely would not have a bank neglect to collect minor profits, because of the smallness thereof. As to making said collection "obtrusively obvious," the expression reminds one of the story of the gentleman, who, when returning from a wedding breakfast, claimed to be perfectly sober, but hoped that, to his host, he would not appear to be "*ostentatiously sober*."

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In the circular issued last year by the Montreal Clearing House advocating the early closing of the banks on Saturdays, attention was directed to the benefits which might be derived

<b>Wholesome</b>	by bank officials if every week-end could be made
<b>Food and</b>	a genuine holiday. Bank managers were re-
<b>Daily Exercise</b>	minded that, by taking care of one's health, one

is enabled to cope more successfully with his daily duties. The movement proved popular, and the Saturday banking hours of the principal cities and towns throughout the Dominion now give the bank clerk an opportunity of seeking health and



recreation in the country during the summer months, and afford him an afternoon all the year round for athletic sports and exercise. The growth of interest on the part of the governing powers of the banks in the health and welfare of their officials may have been slow, but it is now most marked. In the magnificent banking rooms of the period, careful attention is given to the lighting, heating and sanitary arrangements, and several of the banks, realizing that wholesome food is just as essential as daily exercise, now provide their workers with lunch.

The increasing interest exhibited in athletic and aquatic sport will also tend to improve the health of our bank officials, and even those in whom the heyday of youth is being changed for the more indolent feelings of manhood may be stimulated into activity by the yearly efforts of their respective banks to win laurels at hockey, baseball and rowing. To such splendid annual inter-bank struggles as the four-oared race for the Hammond trophy at Toronto, a particularly pleasant function this year; to the regatta of the united Nova Scotian banks, always the most brilliant affair of each season at Halifax for the past quarter of a century; to the mid-winter contests for hockey trophies in Montreal and other cities of the Dominion; to each and all of these our banks owe much, and directors and general managers who foster and encourage the love of healthy sports and pastimes in our banks are wise in their generation.

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We recommend to our readers careful perusal of the admirable article by A. Rives Hall, barrister-at-law, on "Fraudulent Preferences." The subject is one of much concern to bankers all over the Dominion, and several of the legal decisions referred to by Mr. Hall will be readily recalled by the interested banks.

**Fraudulent  
Preferences**

J. T. P. KNIGHT.

## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

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### THE INTRODUCTION OF THE DECIMAL SYSTEM.\*

**T**HE formal disallowance of the currency act of 1850, by the Home Government, simply increased the determination of the Canadian Government to vindicate their right to deal with such matters and to obtain the object sought. Yet, when once they had obtained recognition of the right to deal with the currency, their ardor rapidly cooled, and it required five years of undisputed freedom to realize what they were anxious to accomplish in as many months, in the face of imperial opposition.

On August 6th, 1851, in reply to a question in the Assembly, as to what action the Government proposed to take in view of the opposition of the Home Government, Mr. Hincks stated that he took his stand on the ground that all questions relating to currency and banking legitimately came within the scope of colonial legislation. Whereupon, not only the supporters of the Government, but its leading opponents in the House, assured Mr. Hincks of their entire support, and highly eulogized the ability and independence which he had

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#### \*Chief sources:—

Journals of the Legislative Assembly, and of the Legislative Council of the Province of Canada, with Sessional Papers, 1851-64.

The Provincial Statutes of Canada, 1851-57.

Copies of Various Bills, as presented to the Provincial Legislature, 1851-64.

A History of Currency in the British Colonies, by Robert Chalmers, London, (1898).

A Few Hints on Decimializing the Currency, by James Alexander, Toronto, 1856.

*Hunt's Merchants' Magazine and Commercial Review*, New York, 1854-63.

*The Canadian Merchants' Magazine and Commercial Review*, Vols. I-V., Toronto, 1857-59.

*The Globe*, Toronto, 1853-63.

*The Leader*, Toronto, 1857-64.

*The Montreal Witness*, 1855-64.

displayed in his controversy with the officials of the Home Government. Immediately afterwards Mr. Hincks presented to the Assembly a series of resolutions on the subject of the currency, the object of which was to bring about a uniform system throughout British North America. He had been in communication with the Executive Governments of Nova Scotia and New Brunswick, and they were prepared to recommend similar measures in their Provinces. It was fully expected that the smaller Provinces, Prince Edward Island and Newfoundland, would follow their lead. He did not attach very much importance to the obtaining of a separate coinage for Canada, to which the Home Government had taken such strong exception; it was mainly a matter of sentiment connected with national self-respect. As it was now practically impossible to maintain a bi-metallic standard of currency, he strongly favored the adoption of gold as the only legal standard. Along with it there should be a subsidiary silver currency for domestic use, being legal tender to a limited amount. A certain over-valuation would prevent it from being sent abroad, while its limited legal tender would prevent its affecting the exchanges. This position seems now-a-days so perfectly obvious and necessary, that it is difficult to realize how so much trouble should have been experienced in regard to its practical recognition.

The more important of the resolutions introduced by Mr. Hincks, as expressing the policy which he had outlined, were to the following effect: It is desirable to adopt a currency for the Province, which may hereafter be made common to British America, and which, while simple and convenient in itself, may facilitate our commercial intercourse with the other parts of the continent. It is, therefore, expedient to adopt a decimal currency, in which the unit of account shall be the dollar, to be divided decimally into smaller denominations. It is expedient that such coins, being multiples or divisions of this unit of account, as Her Majesty shall see fit to direct to be struck, shall pass current by such names and at such rates as are assigned to them. The intrinsic value of the gold coins shall be of the same standard and proportionate rate as the British sovereign, and the intrinsic value of the silver and copper coins shall bear the same proportion to their nominal value as the British silver and copper coins to their nominal value; and the silver and copper coins shall be limited in their legal tender. It is expedient that the value of the silver dollar of

the United States, and of certain other nations, be fixed at one dollar, or five shillings currency, and the other coins remain at their present current value.

An act embodying these resolutions was duly passed by the Legislature. In addition to the features already outlined, it provided that so soon as it may be found conveniently practicable, the public accounts of the Province shall be kept in dollars, cents and mills, and all sums of money and accounts may be legally stated either in dollars and decimal parts of the dollar, or in the present currency. In authorizing the introduction of a provincial gold and silver coinage, the gold standard of the sovereign was adopted, and it was rated at £1 4s. 4d. cy., or \$4.86½. The provincial gold coins were to be unlimited legal tender, under the same conditions of loss by wear and payment by weight as applied to the British gold. The silver coins were limited in legal tender to ten dollars, and the copper coins to twenty cents. To meet the susceptibilities of the British officials, the last clause of the act specified that its provisions should come into force only after the proclamation by the Governor announcing that Her Majesty-in-Council had approved of the act. When, however, this act was framed, care had not been taken to discover how it would harmonize with the existing currency act. As was pointed out at the time, Mr. Hincks had on hand so many national enterprises, railroad and other, that he was unable to give his customary careful attention to the details of all the measures for which he became responsible. With the slight alteration in the rating of the dollar, the currency act of 1841 was still to remain in force. But, under this act the American silver dollar was unlimited legal tender. Thus, while it was the intention to adopt gold as the standard and make silver a subsidiary coinage, as a matter of fact a bi-metallic standard was actually sanctioned.

When this act came before the Lords of the Treasury, along with another from New Brunswick of some months later, they were regarded in the light of an important memorandum on the general question of the currency of British North America, prepared by Sir Charles Wood, late Chancellor of the Exchequer, and dated 30th December, 1851. This was at once a calm and able review of the whole currency situation as regarded colonial standards and the possibility of adopting a uniform system. Incidentally it showed what confusion had

been produced in the currency of the American Provinces, partly through their independent action, and partly also through the interference of the Treasury officials. As a criticism of the past, and as having much influence upon the course for the future, a summary of its chief points will be of interest.

Sir Charles Wood pointed out that by the existing regulations in Canada, the American eagle, coined since 1834, and containing 232 grs. of pure gold, was rated at fifty shillings currency. In New Brunswick the old eagle, coined before 1834, and containing about 247 grs. of pure gold, was rated at fifty shillings, but in practice the new eagle passed at the same rate. In Canada the silver dollar was rated at 5s. 1d., and in New Brunswick at 5s., while in Nova Scotia it is rated at 5s. 2½d., and the fractions of the dollar are adjusted to that rate. In Prince Edward Island the dollar is rated at 6s. 2d., and the half-dollar at 3s., these high rates being due to the extravagant issue of treasury notes in that Province. In Newfoundland there is no legal rating, but the dollar is taken at 5s. Even this, however, is not the limit of discrepancy between the colonies, for it is impossible to make the American and other coins exactly fit the currency of account, hence they pass at values which are not recognized by law.

The confusion in colonial currency is partly attributed to the changes in the standards of American currency, and the ever recurring difficulties which are due to the attempt to maintain gold and silver at a fixed ratio of value. In order to avoid these difficulties and to bring about a uniform system for the various colonies, it had been suggested that the sterling standard of England should be adopted, as in the West Indies. This suggestion, however, was not favourably received by some of the colonies, owing to their intimate intercourse with the United States. Hence it appears necessary to amend the present system rather than to attempt to introduce sterling.

The present basis of the Canadian currency is the gold eagle of the United States, which is conveniently rated at 50s., the pound sterling being taken at £1 4s. 4d. The local currency of New Brunswick, though varying in details, could be adjusted to this system. In Nova Scotia, however, the pound sterling is taken at £1 5s. cy., and the Spanish and Mexican coins are valued in currency on that basis. In Prince Edward Island the pound sterling is taken at £1 10s. cy., and

American gold is slightly undervalued on that basis. It would be necessary, therefore, to alter the basis of the currency in those two Provinces. It is proposed that the British North American colonies should all adopt the Canadian pound currency, as related to the sterling pound at £1 4s. 4d., as the standard, and that a new gold coin to represent that unit should be struck, containing 101.32 grs. of standard gold, or 92.877 grs. of fine gold. It would then be necessary to arrange a suitable silver and copper currency. But, as it is impossible to fix a permanent intrinsic ratio of value between gold and silver, it is unnecessary to fix the silver and copper currency on an intrinsic basis. To retain the fractional currency in circulation the British system is the only safe one, namely, to overvalue the silver coins and limit their legal tender. It would no doubt be most convenient to make the subsidiary silver coins decimal parts of the pound currency.

This system of currency would necessarily exclude the use of foreign silver coins as legal tender, except to a limited amount. But the gold coins of Britain and the United States might be used at their appropriate ratio to the Canadian pound. Such were the essential features of Sir Charles Wood's analysis of the colonial currency situation, and his proposal for its unification.

In considering the Canadian and New Brunswick bills in the light of this memorandum, the Lords of the Treasury first of all expressed their entire agreement with it. From that point of view the only radical objection to the Canadian measure was its retaining the American dollar as unlimited legal tender. Obviously, in the light of the action then being taken in the United States to reduce the intrinsic value of their silver coins, that portion of the act would have to be revised. While doing so, the treasury officials advised, a new bill should be framed giving effect to the plan outlined in Sir Charles Wood's memorandum. The special features to be incorporated in the new measure they set forth in seven sections, every one of which was afterwards adopted in the first draft of Mr. Hincks' new bill.

The Lords of the Treasury disclaimed any intention to interfere with the clauses of the bill then before them for establishing the decimal system of currency, provided only that it should be adapted to the proposed standard of the pound

currency. They would propose that the gold coin to be struck, representing the pound currency, be called a "Royal." They do not consider that any silver coins larger than an equivalent of the American half-dollar need be struck, and they suggest that the minor silver coins should be called shillings, half, and quarter shillings. In the case of the gold coins to be struck, the expense of furnishing them would have to be borne by the various Provinces. But the British Government would be willing to furnish the silver coins through the medium of the Commissariat Department, the seigniorage on them meeting the expense of coinage. The minute of the Lords of the Treasury containing these observations and recommendations was dated July 17th, 1852.

This communication lacked altogether the imperial tone of the former despatches, which had called forth the vigorous rejoinders of Mr. Hincks in defence of the constitutional rights of colonial legislatures. So far as obtaining a respectful hearing for their recommendations, the milder methods were eminently justified. Mr. Hincks, as we shall see, was willing to give way on every point, although the Assembly was not inclined to be so pliant.

When first made public, the plan of the British Treasury seems to have commended itself to a good many Canadians, who, on further reflection, concluded that it was impracticable. As we have already seen in connection with former discussions on the subject, the proposal for a Canadian coinage, based upon the standard of the pound currency, had been frequently put forward, but hitherto had been steadily discouraged by the Home Government. Now, the majority of those who had favoured the currency standard, or even the pound sterling, were converted to the decimal system of dollars and cents. In any case the minute of the Lords of the Treasury made it plain to the Canadian Government that the decimalizing of their currency and the adoption of the gold standard meant a more radical re-arrangement of their system than they had apparently suspected. They, therefore, set out to develop a more comprehensive measure on the whole subject of the currency.

The new measure was foreshadowed in the Speech from the Throne, at the opening of the session of 1852-3. A bill was promised, with the double object of placing the currency

of British North America on a uniform basis, and of introducing the decimal system. After some delay the bill was introduced, and ample time was given for its consideration before it was brought to a second reading in April, 1853.

In his opening speech Mr. Hincks stated that the effect of the bill would be to put our currency upon a gold basis precisely similar in value to that of the United States. But, he did not consider it expedient to adopt the dollar as the unit of account, since we had no Canadian coin to represent it, It seemed to him that the alternative standards to be considered were the pound currency, and the half-pound, with a gold coin as a representative of the unit chosen. He had adopted the half-pound as the better unit, and the gold coin to represent it was to be called a "royal." The shilling, therefore, would be one-tenth of a royal, and in order to complete the decimal system it was proposed to have a new coin to be called a mark, which would be one-tenth of a shilling. He had noted the popular interpretation of this measure as indicating that he had been forced to submit to the officials of the British Treasury, but this was not so. The recent changes in the relative values of gold and silver, and the action of the American Government in virtually adopting the gold basis, had removed the ground of dispute with the Home Government. He did not wish, however, to commit himself to the details of the bill, desiring rather to have the opinion of the House on the subject.

The debate which followed made it very evident that while a number of members, for sentimental reasons, would have desired the introduction of the sterling system, yet, as a matter of domestic convenience and owing to our close relations, in all exchange matters, with the United States, it would be much better to adopt the decimal system of dollars and cents. Very few favoured the adoption of the new system of royals, shillings and marks. Mr. Brown voiced the opinions of the great majority when he said that the chief object to be aimed at in reforming the currency was simplicity, and that could be best attained by adopting the decimal system. But, to adopt a set of coins which were entirely new, not only to the rest of the world, but to the Canadian people as well, would never do. He was entirely in favour of the system of dollars and cents. As to adopting the proposal to supply the country with a complete gold and silver currency, that would be



a very serious and costly undertaking. Canada was not then in a position to maintain an independent gold coinage which would be accepted in international exchange, and there was little need for such a coinage in domestic trade. However, a fractional silver coinage for domestic use only was very necessary. Mr. John A. Macdonald said that on sentimental grounds he leaned towards the sterling standard, but having regard to the close connection, in all exchange matters, with the United States, he thought it best, as a practical measure, to adopt the American decimal system. He referred to the fact that Britain was itself seriously considering the adoption of the decimal system, the Government having appointed an important committee to investigate the question. The very general opinion of the press was fairly expressed by the *Toronto Leader* in the statement, that in a country like Canada, situated on the borders of the United States and with more than one-half of its trade carried on with that country, it is necessary to adopt the system in force there. The present currency system does not harmonize with that of Britain, or with that of the United States. In spite of all attempts to prevent it, the Canadian currency has tended steadily towards dollars and cents. The notes of all the banks are expressed in dollars, and there is no need for perplexing the country with a third system of royals and marks. Further, when Canada has set the example the lower Provinces will soon fall into line. And so it turned out, though not without persistent effort.

In consequence of the strong inclination of the majority towards the decimal system of dollars and cents, Mr. Hincks immediately abandoned the idea of a gold coinage and the proposed system of royals and marks, and promised to simply legalize transactions in dollars and cents and make them the money of account. He would provide, however, for a subsidiary silver currency for the convenience of trade. The supply of copper coinage he proposed to leave to the banks as at the time, saying, that it was inconvenient for the Government to have anything to do with it. However, it was found that it would be more difficult than expected, to immediately provide the means for carrying out the new system. Hence the act, as finally passed, was rather a declaration of intention, or an enabling measure, than an act specifically introducing a new system of decimal coinage. Still the act quite changed

the basis of the Canadian currency and cut off the legal circulation of foreign silver coins. It repealed all acts previously in force, and provided that the denominations of the currency of the Province should be pounds, shillings and pence, and dollars, cents and mills. Any statement of accounts or of money value might be legally made in terms of either system, and the public accounts of the Province were to be kept in such of the denominations of current money of the Province as Her Majesty should from time to time direct. The pound currency should represent 101.321 grs. of gold of the same standard as the gold coins of the United Kingdom, and the dollar should represent one-fourth of that weight of gold. Her Majesty might direct legal tender gold coins to be struck for the use of the Province, under such names and for such sums as might be stated by Royal Proclamation. The pound sterling should be equal to £1 4s. 4d., or \$4.86 $\frac{2}{3}$  cy., and the gold coins of the United Kingdom should pass current as legal tender at that rate. Her Majesty was empowered to direct the issue from the Royal mint of special silver coins for circulation in Canada, of the same standard of fineness and value as the British silver coins, and they were to have such names and values assigned to them, and to be legal tender at such rates as Her Majesty by proclamation might direct. Until it was otherwise ordered by Royal Proclamation, the silver coins of the United Kingdom should pass current in the Province for their equivalent values in terms of the Provincial currency. But, no other silver coins than those mentioned in the act should pass current as legal tender, and none of the authorized silver coins were to be legal tender for more than ten dollars, or fifty shillings currency. The copper coins of the United Kingdom should be legal tender to the extent of twenty cents, at the rate of two cents for the penny and one cent for the halfpenny. Special copper coins of the same standard might be struck for circulation in the Province, and when they were issued the right of legal tender might be withdrawn from the British copper coins. The American eagle, coined before 1834, was rated as legal tender at \$10.66 $\frac{2}{3}$ , or £2 13s. 4d. cy., and the American eagle coined after that date and so long as it retained its existing standard, was to be legal tender at \$10, or £2 10s. cy., and the half-eagle in like proportion. The gold coins of other countries might be admitted as legal tender by Royal Proclamation.

This act was more remarkable for what it abolished than for what it established. The apparently radical policy of removing American silver from the list of legal tender coins, and the establishment of gold alone as the basis of Canadian currency, including bank notes, requires some further explanation. This is found in the changes which had just taken place in the relations of gold and silver in the United States. As already noted, in 1834 the standard of the American eagle was reduced so as to change the relation of silver to gold from a ratio of fifteen to one to a ratio of sixteen to one, approximately, as it was found that the ratio of fifteen to one tended to drive gold out of circulation. After this change was effected, gold re-appeared in the general circulation of the country. There continued to be a fair equality between the metals for the next ten or twelve years. Then, the discoveries of gold in California and Australia greatly increased the available quantity, and very soon placed silver at a premium. The result was, that, between 1848 and 1851, the American silver in circulation rapidly diminished and the silver dollar in particular practically disappeared, the gold dollar being authorized, and first coined in 1849, to take its place. There was a very real famine of fractional currency, which was everywhere at a premium. To remedy this evil the act of 24th February, 1853 was passed, by which the amount of silver in the silver coins from fifty cents downwards was diminished, their free coinage was withdrawn, and their legal tender limited to five dollars. In this act no reference was made to the silver dollar, which no one ever expected to see again, so that while its free coinage and unlimited tender were still legal, few were likely to take advantage of them. Subsequently, in 1873-4, the practical monometallism of the American currency was made legal. Thus, from 1853 to 1878, the date of the Bland Act, the United States was really a gold standard country with a fractional silver currency, as in the case of Britain. This, then, will explain the disappearance of American silver from the Canadian legal tender list, and the stimulus given to the desire, as well as need, for a special fractional currency for the Province. Yet several years passed before any effective steps were taken towards giving concrete expression to the policy adopted, and the powers provided for, in the Canadian act of 1853. Her Majesty's approval of the measure was signified by proclamation on August 1st, 1854.

In the meantime an election had taken place, and at the opening of the following session, in September 1854, the Hincks ministry was defeated and a coalition Government took its place, with Mr. Cayley as finance minister. Until it had assimilated some of its incongruous elements and eliminated others, the new ministry was inefficient and apparently overwhelmed with the magnitude of its inheritance. Mr. Cayley in particular, proved himself as little capable of taking a large and intelligent grasp of financial measures, after the Hincks regime as before it.

In October 1854, Mr. Ferrie inquired of the Government when the act to regulate the currency was to be made effective, by the introduction of a Canadian silver and copper currency. Mr. Cayley replied that the new ministry had not yet reached that question. The following session, in April, 1855, Mr. Mackenzie, now returned from exile and from the county of Haldimand, submitted the third report of the Committee on Public Accounts, which dealt with the subject of the practical introduction of the decimal system. The committee had been at considerable pains to obtain information on the subject. In reply to inquiries sent out, they had secured the opinions of representative Canadians in all important branches of business and professional life. Merchants, legislators, governmental officials whose duties were connected with financial affairs, bankers, railroad officials and educational authorities, were all alike in favour of the immediate introduction of the decimal system, and almost all of them decidedly in favour of the United States currency of dollars and cents. At the same time the committee had discovered and pointed out, that a considerable re-arrangement of the terms of legal obligations expressed in the old currency, would have to be effected. Various fees, taxes, customs' dues, postal rates, etc., would have to be converted into terms of dollars and cents, and this could not always be done with perfect accuracy. For practical purposes, however, they considered that no special hardship would result from taking the cent as equivalent to the half-penny, five cents as equivalent to threepence, ten cents to sixpence, and twenty cents to a shilling. Considering the subject on its merits, and taking the consensus of opinion as expressed in the evidence before them, the committee reached the conclusion, that it was inexpedient to recognize and en-

courage two distinct systems of currency, the pound and the dollar. One standard of value and unit of account should alone be adopted, and that should be the American dollar. Consequently, the committee submitted to the Legislature the following resolution:—"That after the 31st day of January, 1856, there shall be but one currency of account and payment, of which the dollar shall be the unit and standard of value; the public accounts shall be kept in dollars, cents and mills; and the coinage be equal in intrinsic value to that of the United States."

On May 14th, Mr. Mackenzie moved the adoption of that portion of his resolution which referred to the keeping of the public accounts in decimal currency, saying that if this were done every merchant throughout the country would soon follow the example. Again, Mr. Cayley had to confess that the Government had been so busy with other matters that they had not time to take up the question of the currency. A number of the members thought the Government very dilatory in the matter, but, with the understanding that it would be speedily attended to, the withdrawal of the resolution was agreed upon. The following session, however, found Mr. Cayley in much the same position as before. On March 26th, 1856, Mr. Mackenzie moved the full resolution of the Committee on Public Accounts. In supporting his motion he enlarged upon the benefits of the decimal system and referred to the unanimity of the opinions in favour of it. This year Mr. Cayley's excuse was that the British Government had the decimal system under consideration, and it would be well for the Canadians to wait its decision, as it might be advisable to adopt the British system rather than the American. He admitted, however, that the decimal system in some form was desired by almost everyone in the country. There were, he urged, some inconveniences to be apprehended in adopting the American system, as, for one thing, it would lead to the draining of coin from the Canadian banks. He, therefore, once more urged delay, and was supported by his colleagues. The opinions of those who were growing weary of ministerial delays were voiced by Mr. Brown, who pointed out that waiting for the lead of the British Ministry in such a matter was a very uncertain policy. The issue was not a practical and popular one in Britain as it was in Canada, where the system of dollars and cents was perfectly

well understood, as no possible British alternative could be. Letters were read from several bank managers saying that they would immediately adopt the system if the Government did. However, the Government steadily resisted all action in the matter, and the resolution was defeated. Two days later, Mr. Ferrie moved another resolution with reference to the currency, which was,—“That this House considers it expedient that a suitable coinage be procured for this Province.” In supporting it, he referred to the great want of a suitable fractional currency for making change. Though the Bank of Upper Canada had been authorized by act of Parliament to import copper coins, it had not done so lately. Referring to the authority given under the act of 1853, to provide a Provincial currency, he said the object of the resolution was to have the Government take action under it. Seeking once more to escape action, Mr. Cayley argued against his position of two days before. Then, he maintained that to adopt the American currency would be to render the country liable to a drain of bank reserves to the United States, where so many Canadian notes were in circulation. Now, he held that to adopt a currency of our own, would be to discourage the circulation of Canadian bank notes in the United States, because they could not be rendered in American money. Still, he undertook to see what arrangement could be made with the banks to increase the supply of small coins. After some further discussion the resolution was withdrawn.

Three months later Mr. Mackenzie, backed by Messrs. Brown and Dorion, once more brought forward his currency resolution. Once more Mr. Cayley pleaded for time, and got it by voting down the opposition. At last, in the session of 1857, Mr. Cayley was prepared with a bill requiring the Government accounts to be kept in dollars and cents, and all accounts presented to the Government to be rendered in the same, though permitting them to have a second column stating the amounts in pounds, shillings and pence, if so desired. The act, as passed, was to come into force on Jan. 1st, 1858, and from that time dates the official adoption of the decimal system of dollars and cents in Canada, though it had long been growing in popular use.

It was soon realized that before the system could be universally applied, it would be necessary to alter numerous official ratings, as in the case of postage rates and minor fees,

and to provide a Provincial fractional currency corresponding to the new systems of values. As had been predicted by those in favour of the system, once the Government had committed itself to the decimal currency, by deciding to keep its accounts in dollars and cents, a considerable number of merchants did not wait for the appointed date, but immediately adopted the new system. The banks unanimously agreed to keep their accounts in dollars and cents, after the close of the year, and urged that the system should be generally adopted throughout the country. Later, they gave formal notice to the public that, from the first of January, 1858, all negotiable securities payable in Canada must be stated in dollars and cents, and that they were preparing plates so that all notes might be issued in the new currency. To facilitate the change various tables of interest and currency equivalents were prepared in Lower Canada, the new system being less familiar there than in the Upper Province.

Finding that a supply of fractional currency was very necessary to supplement and render effective the adoption of the decimal system, the Government opened negotiations with the Home Government for the supply of a suitable silver and copper currency. Before the end of October, 1857, it was understood that Mr. Wyon, the celebrated designer to the Royal Mint, was engaged upon designs for a new Canadian currency. The obverse of the coins was to bear the Queen's head, and the reverse a wreath of maple leaves, with the value of the coin in the centre.

At the opening of the year 1858, owing to the general preparation made by the business world, the new system came into general operation without any special difficulty and with little comment, beyond approving references in the reports of various boards of trade. It was realized, however, that various supplementary resolutions were necessary, in order to bring the postal rates and the customs duties into harmony with the system.

About the middle of the year, the Government received from the Royal Mint a supply of the new Canadian coinage, to the amount of \$300,000. This was made up of \$100,000 in twenty cent pieces, \$75,000 in ten cent pieces, \$75,000 in five cent pieces, and \$50,000 in one cent pieces. Much surprise was expressed that there was no supply of twenty-five cent

pieces, regarded by many as the most necessary of all. Later, a further supply of Provincial coins was received, making the total amount of the old Provincial issue \$450,000. On December 10th, Sir Edmund Head, by Royal Proclamation, under authority of the act of 1853, gave legal currency to the new coinage.

Once the decimal system was firmly established there arose some difficulty with reference to the silver coins previously in circulation. The currency act of 1853 had made the British shilling legal tender to the limit of \$10, at its proportionate value in the currency of the Province, though no specific value was assigned to it. However, the pound sterling being rated at \$4.86 $\frac{2}{3}$ , the shilling was theoretically rated at 24 $\frac{1}{3}$  cents. At first it was taken in retail trade as equivalent to 25 cents, and this may have been the chief reason for not issuing a special Canadian coin of that value. At 25 cents, however, even the nominal value of the shilling was obviously over-rated. It thus became profitable to import it, with the result that by the middle of 1859, the number of shillings in circulation had come to be an embarrassment to the merchants. They could not dispose of them to the banks at their current value in trade, nor were they legal tender beyond ten dollars, even at their proper value of 24 $\frac{1}{3}$  cents. Toronto was the first centre to adopt measures of protection. In 1859, the Toronto Board of Trade petitioned the Government to arrange for the withdrawal of the British silver coins in circulation. Failing in that, the leading merchants and others, by mutual agreement, determined not to accept the shillings at more than 24 cents each. They sought also to induce the merchants of other cities and towns, and especially those of Montreal, to adopt a similar policy. The Montreal merchants, however, declined to comply with the Toronto suggestion, and in consequence soon found themselves flooded with shillings, faithfully gravitating to the best market. The Montreal Board of Trade then applied to the banks to have the unwelcome coin removed from circulation. The banks in reply, gave it as their opinion that the most effective remedy was to have the Government reduce the value of the coin. Still, the banks would undertake to accept them at 24 cents, and engage to export all they received. But, so long as the merchants continued to accept them in retail trade at 25 cents, the action of



the banks would be of little avail, since fresh supplies would be steadily imported. Obviously, the only effective remedy was that adopted by the Toronto merchants.

After the conversion of the American fractional silver into a token coinage, by the reduction of its intrinsic value in 1853, it once more re-appeared in circulation. Soon it began to find its way into Canada, especially under the influence of the Reciprocity Treaty, although in Canada it had no legal status. It was urged in many quarters that, for the relief of the retail merchants, it would be necessary to make American silver a legal currency once more, and to considerably extend the limit of legal tender payments in all silver coins. Some urged also the adopting of a Provincial gold coinage. These and other matters were referred to the special committee, appointed in March, 1859, to consider the general subject of the banking and currency of the Province. The committee submitted various questions to the leading bankers and others in the Province, and the replies of the former were printed with the report. The most important questions bearing on the currency were the following: Should silver be made legal tender to a larger amount than at present? Would a Provincial gold coinage be of advantage to the country? The great majority of the representatives of the banks expressed themselves as opposed to an increase in the legal tender of silver and as convinced that there was no need for a Provincial gold coinage. The silver proposition was opposed on the sound principle that nothing should be made legal tender to any considerable extent which was not intrinsically worth its face value. In the case of the proposed gold coinage, it was pointed out that there was no occasion for it in domestic exchange, and for bank reserves and foreign exchange it was necessary to hold coin which would command its face value everywhere, as in the case of British and American gold, and this the Province could procure, in any quantity needed, on economic terms. The Bank of Upper Canada, having regard to the unpleasant experience of being called upon to redeem notes circulating in the neighbouring states, was in favour of the banks being permitted to pay five per cent. of any demand for note redemption, in the new Canadian silver coins. It also favoured a gold coinage of four and two dollar pieces. With the same object in view, the Quebec Bank thought that silver might be made legal tender to the extent of \$40. The Banque du Peuple reflected

popular feeling with reference to the plethora of shillings, in suggesting that British fractional silver should be reduced in value about two and a half per cent., and then made legal tender to the extent of \$400.

After the outbreak of the American civil war and the suspension of specie payments by the Government and the banks, the circulation of American silver in Canada greatly increased. The United States Government paper and bank notes passed to a heavy discount, varying in amount with the fortunes of war, the extent of the Government issues, and the manipulations of speculators. At the same time, under the Reciprocal Treaty and in consequence of the war, the demand for Canadian produce was very great. From long usage, American silver had a tendency to pass current at its face value, and that being the cheapest form of acceptable payment, it found its way into Canada in rapidly increasing quantities. The banks and brokers accepted it only at its exchange value, which was at from four to four and a half per cent. discount. The retail merchants and others found themselves increasingly flooded with British and American silver, of which they could rid themselves only at a loss, hence they naturally wished to be enabled to pay it away in larger quantities, as legal tender.

Notwithstanding the opposition of the banks, various bills were brought forward in the Legislature with a view to expanding the legal currency of silver. The first was that of Mr. McMicken, introduced on March 1st, 1859, which authorized the banks to tender, in payment of their notes, Provincial silver coins, to the extent of one-tenth of the whole sum offered for redemption. This was in line with the views of the Bank of Upper Canada and the Quebec Bank. The Board of Trade of Montreal petitioned against this bill, and the Government opposing it, it failed.

The rising tide of American silver caused another effort to be made in 1863. On March 5th, Mr. Tassé introduced a bill to make British and Canadian silver legal tender to the extent of \$400, or £100 cy., also to authorize the circulation of the silver coins of the United States at a discount of six per cent., and, at that rate, as legal tender to the same amount as the other silver. This was the plan proposed by the Banque du Peuple and favoured by a number of papers in the Province, though by some the legal tender was regarded as too high.

Notwithstanding that Mr. Tassé introduced his bill for three successive sessions, it failed to pass. The people continued to struggle as best they could with the surplus silver, until they had gradually learned the lesson that it is useless to take even money at more than its real value, and then expect some one else, be it Government or bank, to relieve you from the inevitable loss. Experience showed that there was no difficulty in getting rid of the silver at its exchange value, which was at four to four and a half per cent. discount. In January, 1863, the Post Office Department issued instructions to receive the British shilling at 24 cents, American quarters at 23 cents, dimes at 9 cents, and 3 cent pieces at 2 cents. This was equivalent to a discount of seven per cent. on American silver, and four per cent. on British. But, the commoner rating was that adopted by the merchants of the towns, namely, to accept dimes at 9 cents, quarters at 24 cents, and fifty cent pieces at 48 cents. Numerous complaints were made of corporations, such as the railway companies, which at once exacted a discount of four per cent. on British and American silver, and insisted upon paying out the same coins in change at their face value.

The Government took no further action in the way of regulating the metallic currency, until the political future of the country was determined by the confederation of the British North American Provinces, when the currencies of all the Provinces were unified on the basis of the decimal system, with the gold coinage of the United States as standard.

ADAM SHORTT.

## FRAUDULENT PREFERENCES.

BY A. RIVES HALL, OF THE MONTREAL BAR.

"The property of a debtor is the common pledge of his creditors, and where they claim together, they share its price ratably unless there are amongst them legal causes of preference." Civil Code, Art. 1981.

THE principle preserved in this article, in virtue of which creditors may attack fraudulent preferences, comes to us unchanged, in all its original force and justness, from that fountain of legal wisdom, the Roman law. The action too, given by the Romans for the enforcement of this principle, and styled by them the *Actio pauliana*, has been reproduced in every essential particular, even to the term of one year for prescription, in our Code, and reads as follows:—"Creditors may in their own name impeach the acts of their debtor in fraud of their rights." (Art. 1032.) The Code Napoleon has preserved this salutary law in one article (1167), leaving to the authors and jurisprudence the duty of amplifying and applying it; but our Code has gone farther and in nine articles (1032-1040) has given the rule itself and some further details of its proof and application.

This necessarily short account of so important a part of our law must be confined to its terms and interpretation in the Province of Quebec, although these do not, except in one or two respects, differ materially from the statute law that governs the relations of creditor and debtor in the Provinces that follow the legal system of England. Indeed so closely does the statute of Elizabeth resemble the *actio pauliana* that we are strongly reminded of that great plagiarist, Bracton, who palmed off on his not too widely read contemporaries, and generations of complaisant successors, whole pages of Roman law as the wisdom of the Common law; and we are convinced that Sir Henry Maine did not go too far when he declared that the Roman law "is the source of the greatest part of the rules by which civil life is still governed in the Western World."

It will be noticed that our article 1032, the substance of which we have quoted above, gives, as does also the Statute

of Elizabeth, a right of action to any creditor against any debtor who seeks to defraud him. But the jurisprudence on fraudulent preferences arises principally and naturally in cases of insolvency. Should a debtor transfer a large part of his property, and still retain enough to pay all his liabilities, it is apparent that there could be no fraud, for the creditor would not be deprived of the just payment of his debt; and in the neighbouring Provinces supplementary enactments have been passed, that refer especially to transfers by insolvent persons, and thus still further adopt the principles of the Civil law. For while the English Common law rewarded the diligent creditor by distributing the estate of the debtor according to priority of judgment, the bankruptcy system, which is based on the Civil law, regards the assets of the debtor as belonging to the whole body of creditors, and properly to be distributed ratably among them. (Parker, p. 109.) Although practically the right exists only in cases of insolvency, in theory it may be applied even though the debtor may still have abundant means to pay all his debts; as for instance, when his remaining estate is not readily available, or is in a foreign country (Aubry & Rau, IV., p. 132). In British Columbia a conveyance of land, though the vendor was solvent at the time, was set aside on the ground that it resulted in denuding him of all his property and so rendering him insolvent thereafter (*Sun Life Assce. vs. Elliott*, 31 S.C.R. 91).

Our examination will then confine itself to questions arising on the debtor's insolvency. And here one important difference between our law and that of the other Provinces must be pointed out. With us it makes no difference whether the transfer or evasion has been effected, voluntarily or only under the threats of the preferred creditor. Under the English law it was considered that, to constitute a preference, the transfer should be a voluntary one, and the jurisprudence so far rendered the remedy nugatory, that the mere demand of the creditor was deemed to be sufficient to remove the volition of the debtor and validate the transfer. Provincial Statutes have, however, somewhat improved the defrauded creditor's position by excluding the "doctrine of pressure" from transactions impeached within sixty days.

(R.S.O., c. 147, s. 2—N.S. 61 V., c. 11—P.E.I. 61 V., c. 4—N.B. 58 V., c. 6—R.S. Man., c. 8.)

The right of the creditors to attack a fraudulent preference is common to all and cannot be exercised by one, or some alone, for their own benefit. The conclusions must pray that the property alienated be restored to the general fund for distribution among the creditors generally. And so where an assignee, with some of the creditors as co-plaintiffs, applied to have such a transfer annulled his action was dismissed, because he was asking the aid of the court to obtain, after the debtor's assignment, a preference for his co-plaintiffs who had joined him in the action for the purpose of recovering for themselves exclusively an amount, the payment of which to them could not be made without committing an act of fraudulent preference to the prejudice of his other creditors (*Longley vs. Van. Allen*, 32 S.C.R. 174.)

### 1. WHAT ACTS MAY BE IMPEACHED.

The word used by our article is very general; and the doctrine is that it covers any act, of whatever nature, the result of which is to defraud the creditors. Thus the creditors may attack the debtor's renunciation of delays in procedure so as to allow a special creditor to obtain an earlier execution (*McBean vs. Tessier*, 13S. 242); the waiver of, or acquiescence in, prescription; the refusal to accept a succession, legacy or community; even a sale for good and valid consideration if part of the price be simulated or be not turned to the profit of the creditors ((*Aubry & Rau*, IV., 130.) We are, however, chiefly concerned with fraudulent transfers of property, whether by sale, mortgage, gift or contract of marriage.

### 2. ESSENTIALS OF THE ACT.

To be fraudulent the act must both spring from an intent to prejudice, and in fact prejudice the creditors. The creditor, then, who wishes to set aside any transfer must prove bad faith on the part of the debtor, who though insolvent maintains the free disposition of his goods and may alienate them when there is no fraudulent intent ((*Desrosiers vs. Meilleur*, 2 s. 411). This rule validates many assignments made to secure advances by which the debtor hopes to clear himself of debt. In the leading case of *Brossard vs. Dupras* (19 S.C.R., p. 531), the debtor gave to one of his creditors, to secure a loan made to assist him in the payment of his composition, a mortgage the

validity of which was maintained by the Supreme Court. There was, it is true, in that case a strong opinion that the security was tainted with fraud, but there was no question of the correctness of the principle that in the absence of fraud the hypothec was good. This is the law also in the other Provinces where it is held that a mortgage made in the *bona fide* belief that the mortgagor would thereby be enabled to continue his business and pay his debts in full is valid; and there must be the intent on the part of the debtor to prefer the particular creditor in order to set aside the impeached conveyance (*Codville vs. Fraser*, 2 Com. Law R. 66, K.B., Man.). And when a father sold his farm to his sons, but continued to reside as usual in the farm house, his name still appearing on the county valuation roll, the conveyance was upheld, although not registered until after his insolvency, on the ground that being solvent at the time of the sale, there was no evidence of fraud. (*E. T. Bank vs. Bishop*, M.L.R., 5 Q.B. 216.) In *Adams vs. Boucher* (2 S. 182) the sale was suspicious because the purchaser allowed the debtor to remain in possession; but, as the contract was onerous and it was apparently believed that the money paid would clear off his liabilities, the court held that there was not sufficient evidence of bad faith to void the transfer. And in this connection it may be observed that there is a well marked distinction between a fraudulent transfer and a simulated one. The former is only voidable, the latter is absolutely void. The fraudulent transfer can be attacked only by an interested third party, for between the parties it remains binding; but a simulated sale may be set aside by one of the parties themselves (*Dorion vs. Dorion*, 3 Q.B.R. 376). And simulation may be invoked even when the debtor was not insolvent (*Lighthall vs. O'Brien*, 6 S. 159).

Since the creditor must have been prejudiced by the act complained of it is obvious that subsequent creditors, unless subrogated in the rights of an anterior creditor cannot attack the transfer (C.C. 1039). A creditor cannot complain that an act performed before the existence of his claim is in fraud of that claim. But cases have arisen when the debtor has made the transfer in contemplation of defrauding his subsequent creditors, and then the rule suffers an exception (*Marcadé IV.*, 502), (*Murphy vs. Stewart*, 12 R.L. 501). And a subsequent creditor may, of course, impeach a simulated sale, for such a sale is, as pointed out, absolutely void. (*Gendron vs. La-*

branche, 3 S.C. 83). Marcadé also expresses the opinion, which would doubtless be followed here, that although subsequent creditors could not take an action in revocation of the transfer, they should nevertheless profit by it when it is successfully pleaded by others.

### 3. PROOF AND PRESUMPTIONS.

It is apparent from the tenor of the cases cited, that the great difficulty, opposed to the creditors in their effort to avoid a fraudulent preference, is the proof of bad faith. Our Code has somewhat lightened this burden by setting forth some general presumptions that will give the creditor a *prima facie* case.

"1034. A gratuitous contract is deemed to be made with intent to defraud, if the debtor be insolvent at the time of making it.

"1035. An onerous contract made by an insolvent debtor with a person who knows him to be insolvent is deemed to be made with intent to defraud.

"1036. Every payment by an insolvent debtor to a creditor knowing his insolvency, is deemed to be made with intent to defraud, and the creditor may be compelled to restore the amount or thing received or the value thereof, for the benefit of the creditors according to their respective rights."

The presumption is more stringent in case of a gratuitous contract, because the transferee has nothing to lose, and his return of the property received will but place him in his original position. A transferee for value, however, may not be able to recover the consideration he gave the debtor, so the law does not penalize him unless he were conversant with the debtor's insolvency. And to prove this knowledge, on the part of the favoured creditor, both direct and indirect, evidence is admissible. One of the circumstances which throws ordinarily most light on the bad faith of third parties is the notoriety of the debtor's distress, and whoever, thereafter, makes with him an agreement prejudicial to his creditors, will have difficulty in maintaining his exception of good faith; the presumption will be against him until he has proved that the notoriety has not reached him. And it is an indication of fraud when the employment of the price of the alienation does not appear; when the books of the debtor show no entries of the trans-



action. So, where a debtor enters into a contract, twenty-three days before making an abandonment, by which he transfers to one of his creditors practically the whole of his stock in trade, it may be presumed that the debtor is in a state of insolvency, and the creditor's knowledge of that insolvency may be presumed from the fact that he had been doing business with the debtor (as his banker) several years and had an intimate knowledge of his affairs; that the insolvent was indebted to him in a large amount; that he held overdue paper; and that he was aware that he was indebted to others (*Gilmour vs. Letourneux*, 1 Q.B. 294).

Where the customer of a bank was heavily involved in the failure of a third party, whose notes, endorsed by him, are held by the bank, and collateral security was subsequently, but before his own abandonment, transferred to the bank by the customer, it was held that the bank had knowledge of the customer's insolvency from the date of the third party's failure, and the assignments of paper not yet due and warehouse receipts were fraudulent preferences given to the bank. (*Stevenson vs. Can. Bank of Commerce*, 23 S.C.R. 530.)

It has been held, and is now the recognized law in our Province, that the lack of formal delivery and displacement is one evidence and an important one that no real purchase or sale was intended between the parties, but that it was an effort in view of the debtor's embarrassment to improve the position of a creditor at the expense of the general mass of creditors (*Rickaby vs. Bell*, 2 S.C.R. 560; and *Dupuy & Cushing*, 22 L.C.J. 201). But presumptions of fraud may be rebutted, for mere insolvency is not of itself sufficient cause for setting aside a mortgage; there must be fraudulent intent (*Warren vs. Shaw*, 12 L.C.J. 309). And where acting in good faith a debtor, who subsequently became insolvent, had bought a quantity of bark in his own name, but with the moneys advanced him by his creditors, it was held, that although the bark had not been delivered and was still in the debtor's possession, the creditor had the right to revendicate the same in the hands of the curator. (*Church vs. Bernier*, 1 Q.B. 257.)

In Ontario the law is slightly different from ours, for there there must be a concurrence of intent to defraud on the part of both debtor and creditor; and if the creditor, though he had notice or knowledge of insolvency, acted in good faith,

receiving his preference without any participation in the intent of the debtor, the transaction will be considered valid (Parker, "Frauds on Creditors," p. 166). In Manitoba there is, however, a closer resemblance to our law, and "if the transferee has such a knowledge of the debtor's financial position that an ordinary business man would conclude from it that the debtor was unable to meet his liabilities, constructive notice of the insolvency should be imputed to him *prima facie*, he being at liberty to rebut it." (Parker, p. 167.) And knowledge of insolvent circumstances may be inferred. So a mortgage given to a creditor to secure his claim at a time when the debtor knew he was insolvent, may be set aside as a fraudulent preference, although it has been obtained by pressure and was given without any desire on the part of the debtor to prefer the mortgagee, if he knew or should have known that that result would follow (Schwartz vs. Winkler, 2 Com. L.R., 51 K.B., Man.)

#### 4. COMPOSITION DEEDS.

From the moment then that the creditor's knowledge of his debtors insolvency is established either by proof or presumption, the transfer becomes void, unless it can be shown that the parties acted in good faith. The most prolific source of litigation on this point, is the composition deed by which debtors seek to keep their businesses afloat. It frequently happens that one creditor holds out for a better figure, and will not consent to sign the deed until he has received some preferential security or payment. Such agreements have been repeatedly set aside. In the case of *Brigham vs. La Banque Jacques Cartier* (30 S.C.R., p. 429), it was held that a secret agreement by which one creditor is to receive 40 cents, is a fraud on the general body of creditors who receive only 30, notwithstanding that the agreement for the additional payment may be made by a third person who has no direct interest in the insolvent's business, and the promissory note given to secure the amount of such preference is wholly void. The English law is the same, and holds that when a debtor offers his creditors a composition whereby they all are to receive the proportionate amount in respect of their debts, it is contrary to the policy of the law to allow him to purchase the consent of one creditor by payment of his debt in full (*Atkinson vs. Denby*, 7 H. and N. 934). In England, however, and in our

sister Provinces, should the debtor voluntarily pay the notes given for such surplus, neither he, nor his assignee in the interests of the other creditors, will be permitted to recover the amount so paid, on the ground that "whoever is a party to an unlawful contract, if he hath once paid the money stipulated to be paid in pursuance thereof, he shall not have the help of the court to fetch it back again." (*Wilson vs. Ray*, 10 A. & E. 82, and *Langley vs. Van Allan*, 32 S.C.R., 174).

The English law had indeed made a subtle distinction between transfers of property and transfers of money, following which "most of the Provincial Acts have also provided that payments of money to a creditor are not open to attack as preferences" (*Parker*, p. 116), and the jurisprudence establishes that though a third party's cheque is not money in this sense, the debtor's own cheque is money and its transfer may not be impeached.

Our article 1036 explicitly invalidates any payment made to a creditor who knows of the debtor's insolvency, and it is held that there is no difference between a payment and a contract (*Beaulieu vs. Levesque*, 2 S. 193).

But, if on signing the composition deed one creditor insists on and obtains the endorsation of a third party, such security will not be considered a fraudulent preference (*Bank of Montreal, vs. Audette*, 4 Q.L.R. 254). And when an endorser of composition notes, for his own security, required the debtor to deposit \$75 a week to his credit, it was held that there was no fraudulent disposition of the debtor's goods to defeat the just claims of the creditors (*Beausoleil vs. Normand*, 9 S.C.R. 717). The composition endorser is also discharged if the creditor receives the amount of the composition privately from the endorser (*Arpin vs. Poulin*, 22 L.C.J. 331); and though he be not discharged by reason of a secret stipulation by which the creditor is to receive an amount in excess of the composition, he is entitled to deduct all such sums received (*Martin vs. Poulin*, 4 L.N. 20).

A defence of compensation might be considered to rest on a different footing and entitle the creditor to retain sums due the debtor that come into his hands, but in the case of the *Exchange Bank vs. The Canadian Bank of Commerce* (10 L.N. 110), it was held that where drafts and notes are placed with a bank by a debtor of the bank, not as collateral security but for collection, compensation does not take place until the

bank has received the amounts collected by them on such notes; and the debtor having become insolvent before any such amounts were received, compensation did not take place.

## 5. MARRIAGE CONTRACTS.

This brief survey of our law would be incomplete without a word on Marriage Contracts that are so often opposed to the payment of the creditors by ranking against the insolvent's estate. There was long a heated discussion by our authors as to whether a marriage contract is gratuitous or onerous; but it is now the well established law that a gift in such a contract by the intended husband to the intended wife of the furniture and effects garnishing the common domicile, is gratuitous, and is invalid against a creditor of the husband who was insolvent at the time of the marriage (*Turgeon vs. Shannon*, 20 S., p. 135).

And even though the husband be not insolvent at the time of the marriage gifts of future property, for instance, furniture that may be subsequently acquired, are illegal and of no effect. Creditors of the husband may, therefore, seize them (*Demers vs. Blaiklock*, 12 S. 43), and the husband may oppose their seizure by creditors of the wife (*Desrochers vs. Roy*, 18 S. 70).

And against those fictitious liberalities of thousands of dollars that ambitious husbands so often set forth in their settlements, it is declared that a gift payable in case of death or insolvency, that exceeds the husband's net assets (*actif libre*), having the effect of rendering him insolvent may be set aside as fraudulent (*Robitaille vs. Bussiere*, 7 S. 274).

## 6. PRESCRIPTION.

Finally our Code provides that the creditor may not bring an action to impeach the debtor's fraudulent act, unless the suit is instituted within one year from his obtaining knowledge thereof. The assignee or other representative of the creditors collectively must take action within one year from the time of his appointment. It is essential whenever the fact does not appear by the dates of the contract attacked, and of the institution of the suit or proceedings, that the party attacking should allege and prove that he only obtained knowledge thereof within the year. (*Gagnon vs. Dunbar*, 20 S. 515).

## A COMPOSITE BANK STATEMENT.

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### SOME FACTS AND FIGURES CONCERNING 13 BANKS.

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L. STEWART-PATTERSON.

TO the average man a bank statement has no more than a passing interest, even if he goes so far as to compare the statement of one bank with another, the bare figures can tell him very little more than that one bank has larger deposits or more capital than the other, but as to the standing or earning power of the banks in question, he can form but a faint idea, until he has called to his aid that invaluable servant of statistics, percentage.

Not wishing, for obvious reasons, to make an object lesson of any particular bank, and also desiring to have the general experience rather than an individual statement, I have combined the annual statements of thirteen of our largest and strongest banks, whose statements I happened to have by me, and taken the average as a basis of the accompanying table, which, with the correlative percentage columns, affords an interesting and instructive fund of information and comparison, both in itself, and in comparison with other statements.

I will now endeavour in a few words, to consider the several heads of the liabilities and assets, especially as regards their relation with each other.

#### *Circulation.<sup>(1)</sup>*

The circulation forms 79.37 per cent. of the paid-up Capital and 10.50 per cent. of the gross liabilities to public, leaving a margin short of the authorized issue of over 20 per cent. or \$790,000, though of this, only about 10 per cent.

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(1) As the statements range in date through the first half of the year, these figures represent no particular period in the year.

LIABILITIES	THIRTEEN BANKS AVERAGE STATEMENT	PERCENTAGE OF ITEMS TO				
		GROSS ASSETS	GROSS LIABILITY TO PUBLIC	CAPITAL	CAPITAL AND RESERVE	DISCOUNTS
Circulation .....	\$ 3,042,158	8.51	10.50	79.37	45.14	14.60
Ordinary Deposits .....	6,013,817	18.83	20.75	158.90	89.23	28.88
Interest .....	19,066,542	53.43	63.84	497.96	233.20	91.66
Balance due Banks .....	604,522	1.69	2.08	15.77	8.97	2.90
Unclassified .....	239,912	.67	.83	6.26	3.55	1.15
<i>Due Public</i> .....	\$28,963,951	81.13	100.	758.26	430.09	139.19
Paid Up Capital .....	3,532,660	10.73	13.22	100.	56.87	18.40
Ret & Undiv. Profits .....	2,906,693	8.14	10.03	75.84	43.13	13.96
<b>TOTAL</b> .....	<b>\$35,726,574</b>	<b>100.</b>	<b>123.25</b>	<b>932.10</b>	<b>530.09</b>	<b>171.55</b>
<b>ASSETS</b>						
Specie and Dom. Notes .....	\$ 2,552,264	7.14	8.80	66.58	37.88	12.25
Gov. Dept. a/c cir. ....	146,627	.41	.50	3.83	2.17	.70
Notes and Cheques .....	1,034,159	2.89	3.57	26.98	15.34	4.97
Due from Banks .....	1,573,537	4.41	5.43	41.05	23.34	7.55
<i>Liquid Assets</i> .....	\$ 5,306,587	14.85	18.30	138.44	78.73	25.47
Securities .....	4,002,425	11.20	13.81	104.42	59.38	19.23
Call Loans .....	5,014,228	14.04	17.30	130.82	74.40	24.06
<i>Quick Assets</i> .....	\$14,323,240	40.09	49.41	373.68	212.51	68.77
Discounts .....	20,825,658	58.29	71.85	543.35	309.	100.
Overdues .....	76,510	.21	.26	1.98	1.13	.36
Real Estate .....	34,874	.10	.12	.92	.52	.17
Mortgages .....	53,314	.15	.18	1.39	.80	.25
Premises .....	402,306	1.13	1.39	10.50	5.98	1.94
Other Assets .....	10,582	.03	.04	.28	.15	.06
<b>TOTAL</b> .....	<b>\$35,726,574</b>	<b>100.</b>	<b>123.25</b>	<b>932.10</b>	<b>530.09</b>	<b>171.55</b>
<b>NET PROFITS</b> .....	<b>\$ 539,230</b>	<b>1.50</b>	<b>1.86</b>	<b>14.07</b>	<b>8.</b>	<b>2.58</b>

## NET PROFITS

To Capital .....	14.07
"    "    and Reserve .....	8.
Dividend .....	9.
Reserve and Sundries .....	3.93
Carried forward .....	1.14
<b>—</b>	<b>14.07</b>

Twenty-eight per cent. of net profit went as reserve, depreciation, officers' pensions, etc.

Interest deposits .....	2.82
All liabilities except interest ..	3.24
Gross Assets .....	1.50
Discounts .....	2.58

would be safely available, as few banks would venture to issue nearer the limit than that, especially one with numerous branches. The circulation occupies an anomalous position among the liabilities of a bank, as in case of a panic or run on the institution, the bank's own circulation would be gladly accepted in payment of deposits, etc., thus paying off one kind of liability by increasing another. This expedient would of course only avail up to the legal limit, but it is a valuable feature in so far as it not only forms a first bulwark of defense, but gives a bank time to strengthen the tills of its various branches and realize on its liquid securities, and in many cases would be more than sufficient to tide over a local panic.

The Canadian system of bank currency has generally been accorded a high place among the currency systems of the world, not only on account of its absolute safety to the note holder, but also on account of its elasticity in meeting every need of national life and trade. The unfailing reciprocal redemption of each other's notes by banks all over the Dominion renders unhealthy inflation an impossibility, while the automatic expansion of the circulation whenever required or called for by the exigencies of agriculture and commerce, from no matter what part of the Dominion, has been no mean factor in the wonderful progress of this country.

### *Ordinary Deposits.*

These form 20.75 per cent. of the gross liabilities or a little over  $1\frac{1}{2}$  times the paid-up capital. The average Canadian current account is run at a loss, and were it not for the collateral profits accruing from the connection in the shape of exchange, discount, etc., the burden of operating them would be an impossible one from a business point of view. The average cost of carrying a fairly active account, has been variously estimated at from \$15 to \$25 per annum. The most conservative view demands a balance of at least \$300 to cover cost, and when we remember the expensive cheque books and other stationery which are now used, as well as the allocation of a proportion of office expenses and salaries to each account, we are almost inclined to put the balance required even higher. Basing a customer's line of credit on the average balance of his current account, is a good method and should be more generally followed in Canada. It is often customary in the States to require a customer to keep about 20 per cent. of his "line" at

his credit. A nominal charge is made by most city banks in Canada on small checking accounts, but it is a question even then if the bank comes out whole. Canadian banks have only themselves to thank for the hand to mouth condition of many of the deposit accounts, and it is to be hoped that some action will be taken in the near future to lessen this growing expense.

Unfortunately, the unwise competition to obtain business at any cost, which has lately developed in our midst, makes the above question a very delicate one to handle. The public naturally want all they can get, and a bank would find it a very difficult matter to convince a customer that his account, with its small balance, was an expense to the bank in the face of the specious invitations on street cars and in newspapers to deposit any sum, no matter how small and draw 3 per cent. interest, compounded semi-annually. Such methods may simply be a bid for business to be abandoned later, or else they are an expensive way of buying experience; in any case, it is viciously educating the public to an utterly false view of banking profits, which will be felt for many years to come.

#### *Interest Deposits.*

Under this heading lies the whole crux of the banking situation so far as profit is concerned. They equal over one-half or 53.43 per cent. of the gross assets, two-thirds of the liabilities to the public, and nearly five times the paid up capital, and they form the largest individual item in the statement with the exception of the discounts.

The present rate of interest given by Canadian banks is three per cent., compounded semi-annually, which, considering the present worth of money, is exceedingly good interest, especially on the smaller accounts. The chief difficulty lies in the fact that the public look upon a Savings Bank account both as an investment and a convenience; the two are not compatible; for a time deposit, requiring little or no reserve and the minimum of book-keeping, 3 per cent. or even a little higher rate, would not be inconsistent, but to give 3 per cent. on an account subject to withdrawal, in whole or in part, practically without notice (in many cases an ordinary checking account) borders on altruism.

The Government Savings Bank pays 3 per cent. and, though I have no data of their expense, I very much question but that a loss is shown at the end of the year, notwith-



standing the fact that they have no expensive reserve to keep up. In view of the fact that the Canadian Government is able to float their bonds at a lower rate than 3 per cent, it is hardly economy to give 3 per cent. for deposits, and pay all the expenses for book-keeping and collecting as well.

To those who are interested in the question, I would refer them to Mr. George H. Pownall's article in the April number of the Journal, and also to an interesting series of letters and articles that recently appeared in the *New York Financier* on Trust Co. deposits.

As regards what might be called the absolute value of money to-day, it may be of interest to refer to the United States currency bill of 1900, when certain bonds were refunded into 2 per cent., 30 years gold bonds on a  $2\frac{1}{4}$  per cent. investment basis, "as the unaided and self-relying earning power of capital," that is to say, the bill assumes that money when placed upon a security of absolute solvency for a given time, with little or no expense of book-keeping, is entitled to  $2\frac{1}{4}$  per cent.

Balances due banks, and unclassified liabilities, require little remark, forming, as they do, less than 3 per cent. of the gross liability to public. Under the latter heading, I have included such items as unpaid dividends, rebates, etc.

### *Paid-up Capital and Reserve.*

Paid-up capital forms 13.22 per cent. of the liability to the public, and represents, with the Rest, the liability of the bank to its shareholders. The average dividend declared by the thirteen banks, was at the rate of 9 per cent., while the net interest earned represents 14.07 per cent. on the Capital,<sup>(1)</sup> which was allocated as follows:—

Dividend declared . . . . .	9.00
Reserve, depreciation of property, officers pension fund, taxes, (representing 28 per cent. of the net profits.) . . . .	3.93
Profit and loss carried forward . . . .	1.14
	14.07 per cent.

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(1) Percentage of net earnings to capital is invariably quoted in connection with the annual statement of a bank, it is misleading and should be abandoned, and the percentage of net earnings to capital and reserve quoted instead as a true criterion of interest earned on liability to proprietors.

The average market value of the shares approximate 218 <sup>(2)</sup>, this at 9 per cent. nets the shareholder 4.13 per cent. on his investment; as the table shows the actual amount of the capital and surplus to be 175.84 per cent. of the capital, the market value exceeds same by over \$40 premium per share of \$100 nominal.

The reserve forms 75.84 per cent of the capital, and is one of the most important features of the statement, strengthening, as it does, both the position of the shareholder and the public, and has been built up by yearly toll on the banks' profits, practically a premium of insurance against future loss or shrinkage.

We now come to the assets, commencing with specie and Dominion notes, representing 7.14 per cent. of the gross assets and 8.80 per cent. of the liability to public.

Deposit with Government on account of circulation represents a mean average of 5 per cent. on the circulation of a bank, adjusted on the 30th June of each year. In the case of the failure of a bank this fund would become immediately available for the redemption of the notes.

Notes and cheques of other banks consists of bills and cheques in transit, and clearing-house deliveries for the day subsequent to the date of the statement.

Balance due from banks explains itself and comprises deposits with correspondents in Canada, England, United States and other foreign countries. These four comprise what I have called Liquid Assets, and represent 18.30 per cent. of the liabilities to the public; in case of panic these would be immediately available. Securities comprise first-class municipal, Government, and other stocks and bonds; these being readily convertible into cash, are highly esteemed as a banking asset, though they necessarily bear but a low rate of interest.

Banks might follow, perhaps with advantage, the custom of insurance companies and give a detailed list of their securities with the Annual Statement.

### *Call Loans.*

Call Loans come next in order of merit as an asset, and next to discounts, is the largest individual asset. They repre-

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(2) Owing to the various dates of the statements, it is impossible to give exact figures, but above is not far out.

sent advances made to brokers and other customers on the security of first-class stocks and bonds, with an average of some twenty points below the market value of the stock, if watched carefully and lent conservatively, they form a safe and remunerative asset. A proportion of this amount is employed in the New York and other foreign markets; from time to time we hear this fact brought up as a grievance against those banks who use part of their funds in this manner, instead of using them all in Canada. To be self-contained may be a virtue in many cases, but in these days finance is international, and it should be a matter of pride rather than of calumny that we have banks capable, not only of holding their own, but commanding the respect and admiration of their foreign confreres. We hope the day of a panic in Canada will never come, but if it does, this maligned feature of the assets may perhaps prove to the Canadian banks as a rope to the drowning, and save them from the whirlpool of disaster, not only by providing a market for securities, for even gilt edged bonds could find no purchaser here at such a time; but the good credit and well-known integrity of the Canadian banks would command the advice and assistance of the banking world.

### *Discounts.*

We now come to Discounts, the largest item in the statement, amounting to 58.29 per cent. of the gross assets.

This heading is one of the weakest features of the statement called for in the Government Returns; in saying this, I am casting no reflection on its intrinsic worth as an asset, but simply as to its form of presentation in one amount of totally dissimilar items. Following the practice of English banks, this asset can be broadly divided into,—

Advances to customers,  
Bills and Notes maturing.

The latter are the more desirable from the fact that they are principally composed of trade bills, with a currency of from one to four months, and as a rule can be relied on to retire at maturity; giving them an average currency of one hundred days, which I think is high, we at once see the advantage of stating these separately in the return, as they form a valuable feature in estimating a bank's quickly available assets, a bank

with say \$6,000,000 of such notes would have about \$60,000 coming in every day, providing the bills were all good.

Advances to customers on the other hand cannot be relied upon to any such extent, they may be divided into three divisions:—

(1) Advances made to customers on produce and other merchandise.

(2) Advances made to customers on stocks and bonds (on time).

(3) Advances made to customers on overdrafts, notes other than trade bills, etc.

The first two call for very little comment, and if well margined form a good asset. It is the latter class that give the most anxiety and trouble, and unless great care is taken the bank is liable to become as it were a partner in more or less plausible undertakings; here we find the dead loans, all safe enough, no doubt, as far as ultimate payment is concerned, but still, not banking. In this connection I can do no better than quote Mr. Pownall, who says, "Advances are made to business firms that are in their nature more or less permanent, sometimes consciously so, sometimes made so by force of circumstances. . . But what can you in reasonable time recover from such firms? And in case of their failure what will the banker do with the worn out works or the old fashioned mill? He has become a partner, frequently principal partner. If we are to make advances which are in their nature dead loans, let us clearly define to ourselves the risks, and the amount of the risks we are taking."

The rest of the assets form so small a portion of the whole that they call for no particular mention, and we will now give our attention to the last item on the table.

### *Net Profits.*

Paradoxical as it may appear, the interest of both the shareholders and the public are intimately concerned in the earning power of the banks. To the public it means further protection to them in the shape of an increment to Rest Account and a conservative writing off for depreciation, in other words, insurance; to the shareholder the return on his investment in the shape of dividends.

Considering the vast sums of money a bank turns over in the course of a year, the net result is surprisingly low, netting in the statement before us only  $1\frac{1}{2}$  per cent. on the total assets, and out of this a still further deduction has to be made for depreciations and extraordinary expenses, as well as the usual allocation to Rest account.

We will now consider the net profits in connection with some of the detailed headings and find that it represents 1.86 per cent. of gross liability to the public, 2.82 per cent. on interest deposits and 3.24 per cent. on all other liabilities including capital and reserve. In other words, we find that even with the free assistance of all the other liabilities, representing over \$16,000,000, the interest deposits would only have netted 2.82 per cent, while, if we leave the interest deposits out, we find that on all the other liabilities, including circulation, capital, reserve, etc., we are only able to net 3.24 per cent., which appears absurdly small, and leads us to consider whether there is not a serious leakage somewhere, especially as the discounts averaging 6 per cent. earning power, only net 2.58 per cent. on the same basis. Taking Securities and Call Loans as two assets, whose net earning power is easily determined, as they demand but slight clerical attention or book-keeping, say  $\frac{1}{4}$  of 1 per cent. per annum, we will not be very much out in allowing that the Securities (stocks and bonds) netted  $3\frac{1}{4}$  per cent., and the Call Loans 5 per cent. during the last year, leaving the interest earned on the balances with other banks (averaging some 2 per cent.) to offset any over-estimate of interest on securities.

Securities at $3\frac{1}{4}$ per cent. . . .	\$4,002.425	\$140,084
Call Loans at 5 per cent. . . .	5,014.228	250,711
		<hr/> \$390,795

Deducting this from net profits \$539, 230, we find the sum of \$148,445, representing the amount earned on the other assets. On discounts alone, this only represents a profit of .71 per cent. per annum.\*

(3) It may be of interest to call attention to the fact that roughly speaking,

Call Loans }	=	{ Circulation
Securities }		{ Reserve
		{ Paid up Capital
Interest Deposits =		Discounts
Ordinary " =		Liquid Assets

All the liabilities, with the exception of interest deposits, show a net profit of 3.24 per cent. Putting these on the same basis as the interest deposits, viz., allowing 3 per cent. on them and deducting that as an expense, we find they netted only .24 per cent., or a total net profit of .11 per cent on Gross Assets. If compounded semi-annually, this would leave less than 1-10 of 1 per cent. net earnings. In the face of these several showings it is very difficult to overlook the vast difference between gross and net earnings. Were we considering an isolated bank, we might ascribe it to an excessive writing down of securites, and properties, or writing off of bad debts, but in the figure used, we can find no such palliative, all idiosyncrasies and rough corners of the individual banks are rounded off, and lost in the general average of the thirteen banks, and the figures are more conclusive than any one bank can show.

It is indeed food for deep thought, when we find that the combined experience of thirteen of the oldest and best respected banks of the Dominion can show no better results than those shown above. Goodwill, old connections, profits on exchange, profit taking on bonds, etc., all included, and yet netting but  $1\frac{1}{2}$  per cent. on total assets, or 8 per cent. on capital and reserve, representing not quite 1-5 of the total; is it not time to cry halt in this competition for business, and consider how far it is advisable to run as a philanthropic institution?

It is difficult, without particulars of gross profits, expenses and other data, to prove the case further than above, but I think the showing is sufficient. In any case, no one will dispute the fact, after considering the above figures, that to pay more than three per cent. for deposits, would be questionable banking, as it is wrong in principle and unsafe in practice. The evil of paying more for deposits than they are really worth, is very clearly set forth by Mr. E. C. MacDougall at the New York Bankers Association on Sept. 10th, in which he says,—“Such methods lead to the accumulation of a line of deposits beyond what the legitimate needs of the bank's borrowers require. The bank thus develops a poorly balanced business. The interest charge on the deposit line is constant, the bank must employ its deposits, must employ them at a good round interest, must employ them fully at all seasons. Therein lies

the danger, and no theoretical danger, but a real and ever present one, as I know from my own personal observation of the experience of a number of banks in a city of this state; which as my fellow delegates can testify, went down in ruin; all of which might have been running to-day had they paid a low rate of interest and had they held only deposits enough to care for their legitimate business. A large deposit line, attracted by high interest rates, is a source of weakness, not of strength. One of its consequences is constant temptation to greatly excessive lines of credit, resulting in the gradual accumulation of a line of dead paper, practically the forcing of the bank into partnership with many of its customers; with what disastrous result most bankers knows'.

"What is the chief end of a banker? To publish larger totals than his neighbor? You will not answer yes, but the practice of many of us answers 'yes.' At the present time there exists among bankers a mania for what we call 'big figures.' We want 'big figures' in a hurry, and the surest and quickest way to get them, is to pay a higher rate of interest than our neighbors. Our neighbors soon know our rates, and generally meet them. Then we raise again, and if we are really enterprising modern bankers, we keep up the process until we get the deposits."

The writer disclaims any intention in the foregoing remarks to criticise the results achieved by older and more experienced heads than his; his principal object in presenting these figures, is the hope that his premises and line of argument may lead others to make more exhaustive and valuable deductions. The trend of the times is towards cheaper money and higher expenses (due in part to competition): between the upper mill stone of the earning power and the nether stone of the cost of money, banking profits are ground exceeding small.

## FREE TRADE AND ITS FRUITS.

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(From the Fortnightly Review.)

"We boom and you crab." So said an American friend to me last year, when the great ocean combine was the subject of agitated discussion in so many newspapers. The contrast between our English habit of clamourously announcing to the world some catastrophe to British trade and the American habit of proclaiming a "gigantic success" on the most trivial grounds struck him as scarcely anything else in this country. Nevertheless, until a few months ago, though we might "crab" our trade, we still retained a buoyant pride and confidence in our Empire, which we imagined to be great, glorious, and prosperous, and uniquely distinguished from all others because it was held together by the silken ties of sentiment and affection. But in a few weeks all this has changed. We now have the Colonial Secretary, whose long administration was supposed to have created a new and greater epoch of Colonial loyalty, suddenly beginning to speak as if the Empire also were on the verge of collapse and its "silken ties" a complete illusion. We have poured out blood and treasure without stint during the last four years for the security of the Colonial Empire, and this, after all, is the result, and it is Mr. Chamberlain who tells us! Eight years of his administration have brought us to a point of danger undreamt of when he took office; and the whole world is called upon to witness, not merely how British trade is decaying, but what a brittle, unsubstantial fabric is this sanguine dream of sentimental imperial loyalty.

Such also is the tale which "Calchas" has unfolded to us in the July and August numbers of this review. It reaches its climax with the suggestion in the August number that Colonial sentiment was an evanescent feeling due to the sex and age of the late Queen. Pro-Boers have had their heads or their windows broken for saying much less than this; and imagination boggles at the thought of what Mr. Chamberlain would have said at the election of 1900, if any opponent had ventured to hint even the half of it during that conflict. But of course, if it is true, it must be told, and we must even applaud the courage which faces the disagreeable truth. Nevertheless, it is so sudden and the secret has hitherto been so well



kept that we are entitled to ask for very particular proof. What is the avowed object of making the disclosure at the present time? It is that at the next election Mr. Chamberlain may be armed with the free hand against Free Trade. More or less than that it is impossible to say, for Mr. Chamberlain himself and "Calchas," his spokesman, whose articles I propose to examine, are themselves wholly vague as to the final outcome. Their argument wavers between protectionism and imperialism. At one moment we are adjured to make a sacrifice that the Empire may be saved, at the next to rise as one man against the fiscal folly which permits the foreigner to invade our home markets. "Calchas" appears to be rather doubtful whether the British public will rise to the first of these appeals, but he is quite certain that they will descend to the second. They are, he keeps insisting, protectionist at heart; they want to bite the foreigner and strike back at him when he dares send his goods into their market and makes it difficult for them to send their goods into his market. Thus Mr. Chamberlain has a double line of advance. If he cannot succeed by saying that every vote for his opponents is a vote against the Empire, he can still have an orgy of fiscal jingoism in which his splendid talent for inciting his countrymen against foreigners will have its finest opportunity.

The new policy being thus quite vague, I do not propose to trouble the reader with any detailed statement of the case against preferential tariffs. But it is impossible quite to pass over either the singularly misleading figures which "Calchas" gives us in respect to the Canadian preference or his honest conviction, expressed with such fervour in the August number, that the Empire will be broken if Mr. Chamberlain fails to carry this part of his proposals. "Our trade with Canada," he tells us (July number, page 28), "formerly sinking from year to year, has recovered and doubled in value." The Canadian preference is, therefore, said to be "an asset worth as much as our whole export trade to Russia." After much casting about for the clue to this statement, I conjecture that "Calchas," who on almost all other occasions takes exports as the test of foreign trade, has on this occasion taken the whole increase both in exports and imports since 1897 and (1) credited it all to the preferential system, and (2) compared it with the *exports* alone of our Russian trade. Such a method of dealing with the figures is, of course, wholly unpermissible. The total increase in our *exports* to Canada is less than half the total of our Russian exports, but in order to ascertain the true effect of the preference we have first to eliminate the articles which have gone into Canada either free or under tariffs not

affected by the preference, and next to consider the general course of trade with Canada since 1897. Now, there has been an all-round increase in Canadian trade since 1897, of which the lion's share has gone to the United States and a considerable share to both France and Germany, though these three countries have not enjoyed preferential treatment. The increase in British goods affected by the preference is estimated in Appendix VIII. of the Colonial Conference Blue-book (p. 84) at "rather more than one and a half millions"; and Mr. Chamberlain<sup>1</sup> himself was last year of opinion that the results thus far were disappointing. The total British exports have not doubled, but increased by 48 per cent. That the preferences have been of advantage both to Great Britain and Canada, and that any advance towards Free Trade on the part of any colony should be heartily welcomed by the Mother Country are propositions which no Free Trader is in the least likely to dispute. But exaggerated estimates formed for the purpose of inducing the British public to change its existing fiscal policy, in the expectation of gains and profits which can by no manner of means be realised either in Canada or any other colony, need the most careful correction according to the facts.

Next, as to the assertion that the Colonies will "turn to the Gentiles" or break away from the Empire if we reject Mr. Chamberlain's policy. The strongest evidence would be required to convince some of us that any body of men—let alone men of our own blood and race—could be guilty of such petulant unreason as to threaten these reprisals because we, while conceding to them the fullest liberty to tax our goods in their markets were unable to give their goods more than the full benefit of Free Trade in ours. Not only is there no such evidence, but with the solitary exception of one characteristic outburst by Mr. Seddon, there is the most abundant evidence that Colonial statesmen have in this matter behaved with the utmost propriety and correctness, remembering alike our interest in a policy of free food and the burden that we already bear almost single-handed for their defence and that of the

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<sup>1</sup> See Mr. Chamberlain's speech at the opening of the Colonial Conference last year: "I have to say to you that while I cannot but gratefully acknowledge the intention of this proposal and its sentimental value as a proof of goodwill and affection, yet that its substantial results have been altogether disappointing to us, and I think they must have been equally disappointing to its promoters. . . . The total increase of the trade of Canada with foreigners during the period named, this is including both the trade subject to the tariff and also the free trade, was 69 per cent., while the total increase of British trade was only 48 per cent."—Colonial Conference Blue Book, p. 7.

Empire.\* A study of the Colonial papers since Mr. Chamberlain made his new departure reveals none of the alarming symptoms which "Calchas" so loves to imagine. The Colonial public appears to be cool and rather critical; their ministers, though sympathetic, are by no means imperative; their manufacturers appear to be resolutely determined that no concession shall be made which would open their internal markets to British or other competitors. Were it otherwise, and were Colonial loyalty really the frail plant that "Calchas" would have us suppose, I cannot conceive how any policy could be expected to confirm and strengthen it which, as Sir Robert Peel said of the former Colonial preferences, "opposes to the interest of the Colonies those of the consumers in this country"; and which also, as we may add, brings into conflict the claims both of the Home and the Colonial manufacturer, and of the producers in the different Colonies, and exposes all these interests and claims to the changes and chances of party politics and political opinion. The familiar dilemma that we must either support Mr. Chamberlain or destroy the Empire need this time have no terror for the most timid. It is, indeed, true that Mr. Chamberlain may in the course of his electioneering do a great deal of mischief in the Colonies by suggesting that Free Traders are their natural enemies, but mischief will be of his making and not of ours.

These proposals, however, have been so abundantly debated during the last few weeks and the shape they may ultimately take is so doubtful, that any argument to be useful must take more general ground. Mr. Chamberlain relies mainly on persuading the public that British trade is in a state either of stagnation or decay. If he can succeed in this, he will go far towards securing the mandate that he demands; if he fails, we may rely on the good sense of the public to defeat a scheme of which the risks are obvious and the benefits entirely conjectural. Mr. Chamberlain's case has been presented in many different guises during the last six weeks, but it is substantially an appeal to the same set of facts and figures, and these have nowhere been more vigorously and effectively set out than in the two articles which "Calchas" has contributed to the *Fortnightly Review*. Here is the ground on which we are asked not merely to sanction Colonial preferences, but to institute a system of all-round protection for the British manufacturer against the foreigner. I propose, therefore, resisting as

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\* See especially on this subject an article by Mr. E. T. Cook in the July number of the *New Liberal Review*.

far as possible the many provocations on side issues which "Calchas" offers on every page of his articles, to devote myself to these alleged facts and figures in the hope of allaying the alarm about our trade, upon which, in the last resort, the case for the new departure must depend. Apart from the question of Free Trade, such an attempt is worth making, for, as Mr. Chamberlain himself said in 1896, these "alarmist views of our position, which are greedily accepted abroad, lead our foreign friends and competitors to take altogether an erroneous view of the commercial power and the commercial influence of Great Britain."

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The difficulty of dealing with such an argument as "Calchas" sets before us is that it entirely ignores the theory which it sets out to confute. Without making any preliminary effort to dispose of the assumptions which have hitherto been universally accepted to explain the operations of foreign trade, it either explicitly or by implication denies them all and proceeds from premisses which are nowhere explained to conclusions which are supposed to be self-evident. We find ourselves transported to a new world in which the operations of commerce are treated as if they were a kind of warfare, in which the customer who pays you for your goods or your services is supposed, if he is a foreigner, to be inflicting a mortal injury on you; in which to receive dividends on invested capital is regarded as a misfortune, if the capital happens to be invested abroad; in which wealth can be created by causing an artificial scarcity and selling promoted by making it difficult to buy. So able a writer as "Calchas" cannot of course mean any of these propositions; but there is no escape from them unless, as a preliminary, he is able to demolish the doctrine of international trade which has hitherto held the field.

What is that doctrine, and what are the facts it seeks to explain? Here I must be very elementary, but there is no other way of clearing the ground. In the last analysis most protectionist arguments reduce themselves to a panic about imports. The apparently alarming fact reveals itself that, whereas Great Britain is sending out only £349,000,000 worth of goods (including £60,000,000 of re-exports), she is receiving no less than £528,000,000. From this it is deduced that the "balance of trade is against us," that "our production is falling off," that "the foreigner is capturing our home markets" and dumping his goods to the ruin of domestic industries. "Calchas" labours under these beliefs to a rather exceptional

extent even among Protectionists. "We are nourishing," he repeatedly tells us, "the competitive power of rivals who have shut us out of their sphere, and are now driving back our home trade in our home markets at the rate of thirty millions per annum." The field of the home manufacturer, smaller to begin with, is still further restricted. As he is borne back at home by the foreign imports of finished goods, which increase by thirty millions a decade, his power to compete abroad is simultaneously injured. The home manufacturer is therefore liable to be destroyed. His capital is insecure, while the capital of his rivals is guaranteed against him." Thus "the vitality of British enterprise will never be restored to its full strength until foreign producers are placed under the same difficulties in our markets as have paralysed our progress in theirs." Examples might be multiplied, but these will suffice. The object is to paralyse the foreigner as he is paralysing us, and that is to be achieved by making it difficult for him to send us goods.

With the facts and figures contained in these passages I shall deal hereafter. We are concerned now with the assumptions. These are manifestly (1) that the foreigner in sending us goods, or at all events in sending them in apparent excess of what we send him, is inflicting an injury upon us which we should resent and resist with all the weapons at our disposal, and (2) that in so far as we sell to him, we should endeavour to do so without buying from him. Now, since in "Calchas's" argument the foreigner is supposed to possess not merely the normal amount of enlightened self-interest, but an altogether exceptional cunning, which places the foolish Britisher at his mercy, on what principle and from what motive is he supposed to be acting in sending us these inordinate imports? Manifestly, according to the protectionist argument, he is not getting paid for them in goods, for the complaint is that the exports are less than the imports; nor in gold, for gold on balance flows into the United Kingdom instead of out of it to the foreigner; nor by any services rendered by us to him, for these are invariably omitted from the account. Why, then, does he do it? The explanations are many and various. One says that he is "dumping" on a vast scale, *i.e.*, selling at less than cost price in order to crush our home industries and establish a monopoly in our markets and in neutral markets hereafter; another asserts that we are paying him by selling out British capital invested abroad—or, rather, did assert it until it was proved to demonstrate from the income-tax returns that we are increasing instead of diminishing our investments abroad. Others frankly give it up and declare it to be an inscrutable and unholy mystery. "Calchas" appears, on the whole, to

belong to the "dumping" school, but in the main he merely asserts that the foreigner does it and must mean mischief by it.

But suppose for a moment we banish the notion that imports are a branch of a great anti-British foreign conspiracy, and see if there is any explanation which fits in with ordinary human nature as it usually manifests itself in the pursuit of business. Suppose, for instance, we had to prepare an account between Great Britain and foreign countries on purely business principles, setting on one side the goods which Great Britain delivers and the services which she renders, what value in imports must we set on the other side for the foreigner to send us in order to balance the account and save us from loss? We send out goods to the value of £340,000,000, for which an equivalent must be received in this country. To the value of these goods must be added the value of the freights and the payments for the services which the great British shipping trade renders to the foreigner. A low estimate of these is £100,000,000. Next there is a sum due to us for profit on British capital employed in foreign business, interest on British investments in foreign countries, and salaries, annuities, and pensions (mainly Indian) which are remitted to this country. In 1899 Sir Robert Giffen<sup>1</sup> estimated that a total of £90,000,000 was not far off the mark for these items. Finally there are the payments due to us on commissions, insurance, agency, and similar items. Sir Robert Giffen estimated these at £16,000,000 in 1882,<sup>2</sup> and they must have largely increased since that date. Let us say £20,000,000. Adding up these various amounts, we reach a total of at least £550,00,000 due to us every year from the foreigner. As a matter of fact, we receive £520,000,000, the difference being accounted for by the reinvestment abroad of interest earned abroad and by the payments among our exports of values due to the foreigner for his investments on business in this country.<sup>3</sup> But in the absence of any other means of obtaining payment for our goods sent out and services rendered, the excess of imports over exports is

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<sup>1</sup> *Journal of the Royal Statistical Society*, 1899.

<sup>2</sup> *Ibid.*, 1882.

<sup>3</sup> Sir Robert Giffen's estimates are very conservative, and it is probable that the payments due to us from the foreigner are considerably greater than are here suggested, and leave a larger margin for reinvestment abroad and for interest due to the foreigner. The assessments for Income Tax show an increase of over £6,000,000 in the earnings from foreign investments since 1896-7. (46th Report of the Commissioners of Inland Revenue for year ending 31st March, 1903, p. 202.)

an absolute condition of British foreign trade, and whoever desires to reduce the ratio of imports must be presumed to wish that we shall not be paid for goods delivered or services rendered. So far from being reduced, the excess of imports must and ought to increase, so long as the shipping trade expands and Englishmen continue to invest any portion of their savings abroad. This is what Free Traders mean when they say that imports are the true test of British foreign trade prosperity. For though our visible exports may not show an increase as rapid as our imports, the latter are the index of those immense invisible exports in which Great Britain stands pre-eminent in the world.

There could be no permanent trade between two countries if the one had everything to give and the other nothing to offer. Suppose that for a few months we purchased heavily abroad and at the same time suspended both our exports of goods and those "invisible exports" which consist of services rendered through the shipping trade and in other ways to the foreigner. What, in that case, would be the result? Manifestly that Mr. Seddon's nightmare would become true, and an enormous stream of bullion or golden sovereigns would issue from the country in payment of these purchases. But, simultaneously, and in consequence of this export of gold, prices would fall in England and rise abroad, until it again became profitable for the foreigner to purchase goods in England equivalent in value to the goods we were purchasing from him. We can see the process everywhere in operation. If a nation temporarily overpurchases, that is, buys more from the foreigner than it is able to pay for in goods and services, the shipments of bullion which then become necessary operate automatically to check the home trade and by lowering prices to bring them to the level at which it becomes profitable to the foreigner to become a customer. The outward expression of this is the rise in the bank rate, which at once checks the outflow of gold and has an adverse effect upon home trade. These monetary movements, which some people find so mysterious, are merely the mechanical ways of equalising the conditions between the various parties engaged in barter, and of putting a temporary check on trade when one side has bought in goods or services more than it can pay for in goods or services. The fear of overbuying, by which we mean buying from the foreigner more than is the equivalent of our exports, added to what is due to us on freights, investments, etc., need not oppress us in the least. If there were any ground for it, we should instantly be warned by the shipments of gold, and these, again, would operate automatically to check our imprudence.

That we do not overbuy is proved by the fact that on the balance we import rather more bullion and specie than we export.

Now, this brief summary of the conditions of foreign trade is no economic pedantry, but the everyday working hypothesis on which it is conducted by those who take part in it. It looks to many of us a matter-of-fact account of business transactions; and since no alternative has ever been suggested by any of the disputants in this controversy, we see not the slightest reason to depart from it. But obviously it cannot be reconciled with any of the leading assumptions and conclusions in "Calchas's" articles. If it is true, then it is irrational to yield to this panic about the foreigner driving us back in the home markets and to treat him as a nefarious conspirator when he is paying us our just dues and "dumping" his dividends into our banks in the only way which is open to him under the conditions of normal and healthy trade. So long as this hypothesis stands, a considerable part of the avowed aims and objects of the Protectionist Party are simply meaningless. If foreign trade is a process of exchange, then it is folly to get into a panic about "money leaving the country," or to speak as if we should do better if our customers were poorer or if they refrained from sending us the goods by which alone they can pay us for the goods we send them and the vast services which in other ways we render them. A Protectionist is fully entitled, if he chooses, to say that foreign trade is a bad thing, or foreign investments undesirable, or the shipping trade an unworthy occupation; but he cannot without absurdity say in one breath that all these are good and desirable things, and in the next breath denounce the imports which alone make them profitable and possible. To speak, therefore, as "Calchas" does, of the field of the home manufacturer being restricted and of his power to compete abroad being injured, because the imports rise without pause or check, is equivalent to saying, first, that the foreigner requires no payment from us, and second, that we should be wealthier and stronger in competition if we forbore to ask payment for our goods and services from our foreign customer. Until "Calchas" or other Protectionists can supply us with a new theory of trade, a large part of his and their argument will continue to involve one or other or both of these absurdities. Foreign trade is avowedly their ideal, but it is a foreign trade consisting of exports without imports. We are to "dump," but never to be "dumped upon"—perpetually to give, but seldom or never to receive. Foreign or any other trade conducted on these principles would of course become rapidly bankrupt.



Here let me briefly glance at certain assumptions and admissions which "Calchas" desires to fasten on to Free Traders. The Free Trader does not admit that the protective system favours capital. What he not only admits, but asserts, is that Protection is good for some capitalists at the expense of the great mass, both of consumers and capitalists. The same argument is true of labour in the aggregate as of capital in the aggregate. Thus it might very well be that, if the boot trade were protected, five pairs of boots might be turned out at Northampton for every four that are now made there. But if, as is certain to be the case, the protective system depressed the export trade as a whole, the labour now engaged in it would have to find employment in the boot or some other protected trade, and there would be at least five men to do the work which is now divided between four. The expectation that wages will rise or employment be more regular is, so far as this factor is concerned, wholly unreasonable. In Germany, where, as we are told, the ideal protective system is in force, in spite of the fact that the latest and most scientific methods of manufacture are applied, and the workman is both skilful and highly trained, the wages are yet considerably lower, the hours of labour considerably longer, and the cost for an equal standard of living considerably higher than in England.

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Thus far I have given reasons for thinking that, even if British trade were in a state of stagnation and decline, the protectionist remedy would only increase the disease. We now approach the statistical part of the case by which "Calchas" seeks to prove that we are in this plight. The vendors of our patent medicine are not content with the ordinary form of advertisement. They will have it, not only that their remedy is better than all others, but that their patient is desperately and mortally ill, and that his last chance of recovery is to summon them to his bedside. If the pious vows and private prayers of certain politicians could deflect that rising curve of exports which has seemed to indicate a continuance of prosperity during the first half of this year, we suspect it would dip sharply from this time forth until it reached the point at which it would furnish Mr. Chamberlain with an effective argument.

In the meantime, we have the astonishing spectacle of our greatest imperialist engaged upon the apparently congenial task of "crabbing" the Empire and "crabbing" British trade—if one may speak thus familiarly of great men. They positively gloat over the morbid symptoms which they imagine

themselves to have discovered. They ransack the past for figures which may by comparison make the present appear gloomy, and they studiously ignore or suppress the intervening years which might make it appear cheerful. They eschew the averages by which the student of trade statistics endeavours to equalise the fluctuations from year to year and give none of the ordinarily accepted explanations of abnormal years. They make no allowance for the enormous differences in the purchasing power of gold in the different years that they compare, but assume that industry must have been stagnant in the interval if the values in gold remain the same, and that it must have declined if the values in gold have fallen. Statistics so arbitrary, so haphazard, and so disingenuous are quite useless for any scientific purpose; but since those which "Calchas" uses are clearly regarded as the choicest weapons in Mr. Chamberlain's armoury, and since they are repeated over and over again in the Birmingham literature, they are worth rather careful attention. To go through them in detail is impossible within the space of a magazine article, but their leading characteristics may be briefly noted. First, it will be seen that "Calchas" almost invariably in his comparisons starts from the year 1872. Why is that? "Calchas," we suppose, will answer that it is natural to take a period of thirty years, and that, since the last figures available are those for 1902, he is bound to begin with 1872. But it so happens that the year 1872 was an altogether abnormal one for British exports, which advanced temporarily in that year by £56,000,000, and rapidly fell back to their normal level afterwards. Sir Alfred Bateman, to whose "admirable memorandum" our Protectionists so often refer, is careful to explain, as they do not, the exceptional conditions of this year. "The figures of the United Kingdom," he tells us, "were largely swollen by such exceptional circumstances as the war between France and Germany, the payment of the French indemnity to Germany, and the boom in our iron and coal trades at a time when railway construction abroad was brisk. These and other causes all contributed to unusually high prices." The best corrective is to supply the figures for the years 1869-75 :—

1869 . . . . .	189,954,000
1870 . . . . .	199,587,000
1871 . . . . .	223,066,000
1872 . . . . .	256,257,000
1873 . . . . .	255,165,000
1874 . . . . .	239,558,000
1875 . . . . .	223,466,000

Therefore, if the year 1872 is to be taken as the starting-point it should be carefully explained that it was governed by quite exceptional causes, which vitiate the comparison between it and other years. But if due allowance is made for that fact, and if the figures are given in full instead of by fits and starts, or if they are grouped in quinquennial averages as they should be, a wholly different moral emerges from that which "Calchas" desires to draw from his tables (pp. 21 and 22 of July number). Trade did not go up by leaps and bounds until the year 1872, and then suddenly become stagnant or decline till 1902. It continued to increase during the whole period; and if we measure exports by volume as well as value, the growth of the output has much more than kept pace with the growth of the population. These facts we will set out more clearly a little later. Next, it will be seen that "Calchas" invariably omits coal from his figures of British exports, apparently on the ground that Mr. Chamberlain, as some of his supporters have explained, considers the exportation of "an exhaustible product of the earth" to be unprofitable and even improper. But the omission at once involves us in all manner of absurdities. Coal is used in the manufacture of every finished article that we send abroad. It takes two tons of coal to produce a ton of pig-iron. We can therefore send no manufactured article abroad without "denuding ourselves of the exhaustible product." The same argument would apply to all the minerals which we and other countries export, and if our figures are to be made to look worse by deducting £28,000,000, more or less, of exported coal, corresponding deductions should at least be made from the foreign statistics which are brought into comparison. The exclusion of new ships is necessary, since they were only entered in the official statistics for the first time in 1899, but this, also, it should be remembered, is more unfavourable to Great Britain than to her competitors. Taking these various factors together, we shall find that, if coal is included, as it ought to be, and if, at the same time, the figures are taken consecutively, and not started arbitrarily at 1872, most of "Calchas's" tables altogether fail to support the requisite tale of woe.

But now we pass to the very heart of the argument. We have tables put before us to show that British exports have been stationary or declining with foreign countries, while they have advanced rapidly and continuously with the Colonies. The reader will be able to judge better of the alleged decline and stagnation hereafter, but let us accept that part of it provisionally. What is the inference? Here we are in a complete

fog. At one moment "Calchas" treats it as the most alarming of all the morbid symptoms; at the next he is vehemently arguing that it is a consummation so devoutly to be wished and so essential to the salvation of British commerce that the whole fiscal system must be upset to secure it. We are accordingly bound to suppose that the diversion of British industrial energy from the foreigner to the Colonial is a bad thing when it follows in the natural order of events, and only becomes a good thing when it is specially brought about by the intervention of Mr. Chamberlain.

We pass now to another argument which is arrived at by rearrangements of the same figures. It is that the stagnation or decline of our exports is a manifestation of our trade with Protected countries, which is altogether absent from our trade in neutral markets. To prove this "Calchas" gives (p. 24, July number) a table of figures of trade in the Asiatic, African, and South American markets, about which he is, in comparison with his usual despondency, quite unaccountably cheerful. For though the total exports only rise from £47,000,000 in 1872 to £50,800,000 in the last year, he describes this as "slow but real progress," though in any other connection it would certainly have been presented as a picture of stagnation. But even if the increase had been twice or thrice as great, it would not have sustained the argument. "Calchas" appears to misunderstand the use of the expression "neutral market." The expression is sometimes loosely used as a synonym for free markets, but it is of course a relative term which applies to any market, free or protected, where the conditions are equalised between foreign competitors. The question, therefore, to be determined is not whether we are doing well, but whether we are doing as well as, or better than, or worse than, our foreign competitors. The utmost that could be deduced from "Calchas's" figures, assuming them to be correct, is that we are doing rather better in one group of markets than in another group, most of both groups being protected. This matter is investigated on the right lines—that is to say, by comparison with our foreign rivals in markets where the conditions are equal between them and us—in the current number of the *Quarterly Review*, which comes to the conclusion that our rivals are, in this sphere of activity, doing somewhat better than we are. We should need to investigate each case very carefully before drawing any positive conclusions as to the causes of this state of things, and that is too long a matter to enter into here. It is sufficient to point out that "Calchas's" figures, even if accurate, do not support his con-

clusion, and that Lord Goschen, with whom he is arguing, is not floored, as he supposes.

But the whole of this particular argument is fundamentally absurd. For consider the steps. One table proves to us that British trade has prospered and advanced with British Colonies, while it has declined or stagnated in foreign markets. The next seeks to prove that the decline or stagnation in the foreign markets must be due to their tariffs. But "Calchas," in the meantime, has entirely overlooked the fact that the Colonial markets are largely protected markets, some of them, and especially those in which Mr. Chamberlain is chiefly interested, having higher tariffs than are at all common in Europe. Therefore, the alleged proof entirely breaks down. Even if we accept "Calchas's" figures, all that they tell us is that trade prospers more in one Protected country than in another, from which no inference whatever can be drawn as to the effect of Protection on trade. The explanation of the greater prosperity of Colonial and the relative decline of foreign trade must be sought elsewhere, and as we shall presently suggest, is by no means difficult to find. But, of course, if "Calchas's" case is disposed of in this respect, then also the strongest part of the argument for "doing something to the foreigner" disappears. "Calchas's" comparative tables for the "maximum years of trade," need alarm no one. Almost any conclusion can be arrived at by taking selected years when trade happened to be exceptionally prosperous, and comparing them with the last figures available. No valid inference can be drawn from the statistics of a single year, and still less from a special selection in which the years are chosen to suit the argument. By a corresponding selection of minimum years in the past it would be possible to give an altogether fallacious appearance of prosperity. The fallacy is neatly disguised by the use of the word "maximum." What is done is to take exceptionally good years and to compare them with 1902, which we cannot pronounce to be a "maximum" until we have the figures for subsequent years. So far it is exceeded by 1903. The word "maximum" has no significance for any purpose of comparison. Still more misleading is "Calchas's" comparison of the British and Prussian income-tax returns. The latter, he says, "show for the last ten years an absolutely greater accumulation of wealth than has occurred in the United Kingdom, and a still greater increase relatively to the smaller population of the Prussian Kingdom." The assessments for income-tax are made on such entirely different principles in the two countries that no such deduction can possibly be made. In Prussia the assessment

starts at £45 a year, and thirty per cent. of the population come under assessment between £45 and £150, and less than five per cent. under the higher assessments. In this country we assess no income under £160. Any comparison between the totals is, therefore, out of the question.

It would be impossible, without reprinting the whole of "Calchas's" tables from the July number, to apply these correctives to them in detail, but the reader who will take the trouble to do it for himself will find his alarm considerably abated. Mere criticism, however, of these selected figures is not enough. We need some rational theory of the course of British trade during the last forty years, without exaggerating its good or disguising its bad points, and if the reader will bear with me while I give a few figures and comments of my own, he will, I hope, have some material for forming a judgment on the whole case.

I take forty years because that period starts us fairly from what may be called normal figures, and not from that *annus mirabilis*, 1872, upon which our Protectionist so largely relies. Now, let us take the figures of British exports, not excluding coal, and divide into quinquennial and decennial averages, the only method which fairly equalises the temporary fluctuations. The result we get is as follows :—

#### BRITISH EXPORTS.

##### *Quinquennial Averages (excluding ships.)*

1863—67	.. . . .	£168,553,000
1868—72	.. . . .	209,708,000
1873—77	.. . . .	223,544,000
1878—82	.. . . .	216,586,000
1883—87	.. . . .	223,943,000
1888—92	.. . . .	244,290,000
1893—97	.. . . .	226,951,000
1898—1902	.. . . .	263,932,000

##### *Decennial Averages.*

1863—72	.. . . .	189,130,000
1873—82	.. . . .	215,065,000
1883—92	.. . . .	234,116,000
1893—1902	.. . . .	245,442,000

The quinquennial periods show ebb and flow, the tide rising a little higher with each flood, and each "maximum," as "Calchas" would call it, yielding a substantial advance on the

previous "maximum." The decennial periods, on the other hand, show continuous progress. Let us now take the figures of imports and arrange them in the same manner :—

### BRITISH IMPORTS.

#### *Quinquennial Averages.*

1863—67 . . . . .	£273,000,000
1868—72 . . . . .	315,800,000
1873—77 . . . . .	376,800,000
1878—82 . . . . .	390,600,000
1883—87 . . . . .	380,000,000
1888—92 . . . . .	417,200,000
1893—97 . . . . .	424,600,000
1898—1902 . . . . .	505,800,000

#### *Decennial Averages.*

1863—72 . . . . .	294,400,000
1873—82 . . . . .	383,700,000
1883—92 . . . . .	398,600,000
1893—1902 . . . . .	465,200,000

It will be seen at a glance that the increase in imports is altogether out of proportion to the increase in exports. The causes which abundantly account for this have already been explained, but one of them may be traced in the figures which record the astonishing and continuous growth of British shipping during this period :—

### NET TONNAGE OF BRITISH STEAMSHIPS.

1863—67 . . . . .	778,800
1868—72 . . . . .	1,164,200
1873—77 . . . . .	1,933,400
1878—82 . . . . .	2,777,800
1883—87 . . . . .	3,939,000
1888—92 . . . . .	4,996,200
1893—97 . . . . .	6,095,800
1898—1903 . . . . .	7,291,400

We can thus see at a glance how the growth of the shipping trade accompanies the growth of imports. Here, as I have said before, we have the chief index of that huge volume of "invisible exports," comprised in the carrying trade, which ought always to be in our minds when we are comparing the figures of our trade with those of our neighbours' trade. There

is evidence in these years of a considerable diversion of energy to the shipping trade, which might otherwise have gone out into the industrialism which bears fruit in visible exports. When other trade is slack, shipping continuously increases, finding employment for immense numbers in building and manning, and in the numerous other branches of employment which attend a great carrying trade. Here, at all events, is a development which no possible ingenuity on the part of the most inconsolable pessimist can succeed in depreciating. It is a natural enterprise for an island people—an enterprise on which its oversea Empire depends, and in which as an imperial people we may fairly take pride.

Having thus laid out the ground, let us now proceed to comparisons. It is perfectly true, as "Calchas" says, that, taking exports alone, Germany and the United States show a greater relative increase in the aggregate than Great Britain. Good reasons have been shown for not taking exports alone as a measure of foreign trade, chief among them as I have just said, that this method practically rules out the industry in which Great Britain has an overwhelming ascendancy. However, for the moment, let us take exports alone. Here I must rely on Sir Alfred Bateman's figures for two five-yearly periods, from 1880 onwards :—

—	Average, 1880-84	Average, 1896-1900	Increase (+) or Decrease (-) in 1896-1900 compared with 1880-84	
			Amount	Per Cent.
	Million £	Million £	Million £	
United Kingdom..	234	249	(+) 15	(+) 6·4
France .....	138	150	(+) 12	(+) 8·7
Germany .....	156	192	(+) 36	(+) 23·1
United States.....	166	237	(+) 71	(+) 42·8

At first sight these figures look black, and our Protectionists regard them with gloomy satisfaction, especially the percentages which, since Germany, France, and the United States start from smaller beginnings, are necessarily even more against us than the totals. But not to mention the fact that our exports of ships and their machinery are omitted, it has always to be remembered that these are the aggregate figures of nations which greatly differ from each other in area and population. "It is necessary," says Sir Alfred Bateman, "to



examine the facts not only as they stand alone, but as they appear when the amounts per head are compared." The following table gives the figures per head for the quinquennial periods from 1875 onwards :—

	United Kingdom	France	Germany	United States
Average of period—	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1875-79.....	6 0 0	3 14 11	3 3 0	2 16 3
1880-84.....	6 13 2	3 13 5	3 8 8	3 5 11
1885-89.....	6 3 8	3 9 3	3 5 6	2 11 10
1890-94.....	6 2 11	3 11 4	3 2 9	2 19 0
1895-99.....	5 19 5	3 14 8	3 7 2	2 18 4

Thus, as Sir Alfred Bateman says, "the exports per head in the United Kingdom are far in excess of what they are in either France or Germany, and still more in excess of what they are in the United States." "Since 1875 the exports per head have been nearly stationary in all the countries named, so that no one is getting ahead of the others in this respect."<sup>1</sup>

Here, surely, we are beginning to get the clue to the facts and figures which appear so horrifying to "Calchas."

For what now emerges? Plainly this—that, while in the aggregate the greater populations gain upon us, in proportion to their population, the relative industrial capacities of the Englishman, the Frenchman, the German, and the American remain almost exactly where they were twenty years ago. Great Britain, now as then, exports nearly twice as much per head of her population as Germany and the United States per head of their populations. That, surely, is not an unsatisfactory conclusion, and still less unsatisfactory, when we bear in mind the immense energy which during the same period has gone into shipping. If we are to augur decline or advance from the figures of the export trade, which are merely one test among many, it must be on the basis of the relative positions per head. It is a wholly vain supposition which can lead to nothing but disillusion and groundless panic, that we with our smaller population can continue perpetually to hold the same relative position in aggregate output to Germany and the United States, with populations respectively forty per cent. and eighty per cent. greater than ours. In that respect we are comparing a hundred horse-power engine with a hundred and forty and

<sup>1</sup> *British and Foreign Trade Memorandum*, Ed. 1899, p. 11.

a hundred and eighty horse-power engine. The smaller machine cannot reasonably be expected to yield the same amount of energy as the larger.

But in looking at Sir Alfred Bateman's remarkable figures of exports per head of population, the reader may perhaps have asked himself whether in spite of all the advances in science and mechanics which the period has witnessed, the productive capacity of mankind can have remained stationary, as these figures seem to suggest. The answer is, of course, that it has enormously increased. For what the figures show us is not the output or the volume of trade, but its value measured in gold, and in the years under review the purchasing power of the sovereign has enormously increased. Thus, to take a simple instance, sixty-four sovereigns in 1898 purchased as much as 109 sovereigns in 1872—a consideration which further dims the lustre of that wonderful year. If, therefore, we wish to measure the industrial energy of any country by comparisons between present and past, we must make due allowance for the changes in the purchasing power of the sovereign, as we can do by means of the index numbers, so-called, of Mr. Sauerbeck, and the Royal Statistical Society. Mr. Gilbert Slater a short time ago prepared for the *Westminster Gazette* a diagram of British exports corrected according to the index numbers, so as to show the volume instead of the gold value of the goods exported.<sup>1</sup>

Now the merest glance at this diagram shows the fallacy of supposing that British industrial energy, as measured in exports, has declined or is stagnating. On the contrary, it shows an enormous and continuous increase of output which is not the less a mark of industrial virility because it is accompanied by a fall in price.<sup>2</sup>

It is not true, therefore, as "Calchas" and his friends so perpetually assert, that we are either stagnating, decaying, or being crushed out. The increase of trade with Canada and with South Africa, says "Calchas," has concealed the decline in extra Imperial markets." But suppose we just alter the words, and say that Colonial development has diverted the stream of British trade from foreign countries to the Colonies, do we not get a much more probable and rational, if less roman-

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<sup>1</sup> The unit which is here employed is that of the purchasing power of £1,000,000 in the years 1865-9.

<sup>2</sup> Mr. Chiozza Money has estimated that at the extraordinary prices of 1872 our exports in 1900 would have amounted to about £425,000,000, instead of the £284,000,000 shown in the Custom House returns.

tic and alarming, version of the facts? The causes which divert trade, either temporarily or permanently, from one market to another, are many and obscure, and need to be explored with the greatest patience and care. A Tariff barrier, or the rise of a home industry, may check the importation in one, while it is actively stimulated in another by the floating of loans, and the consequent demand for plant, machinery, and other goods by which the loan is conveyed from the creditor to the debtor. The loans floated by the Australian Colonies alone during the last ten years amount to seventy millions sterling, and this vast amount has been represented mainly by exports from Great Britain. It seems to be inevitable that during this period there should have been a diversion of exports from foreign countries to the Colonies, and extremely probable that when this development period is at an end the Colonial exports will fall or remain stationary, while the foreign exports again advance. If that happened, the Protectionist party would no doubt have a fresh panic about the decay of Colonial trade, which they would tell us was due to our obstinate refusal to accept Mr. Chamberlain's policy. It would of course be due simply to the cessation of those Colonial borrowings over which some of our financial critics already shake mournful heads, while heartily applauding the increased flow of exports to the Colonies which are their necessary consequence.

To what conclusion do these considerations tend? First, to a quite different conception of the course of trade history from that which the Protectionist school adopts. We look behind the money values to the volume of trade, and form our expectations according to the populations and industrial capacities of the countries concerned. Judging by these tests we find no ground for panic. The volume of British trade has immensely increased; the comparison per head of the population is very nearly as much in our favour as a generation ago; our maritime supremacy is as great as ever. To suppose that in aggregate output we can hold the same relative position as formerly to countries which have a far larger territory and immensely greater population is not in our view a rational expectation, nor is it a mean accomplishment, considering our small area, and lack of exportable raw material, that we should for so long have held the first place in the foreign trade of the world, and continue to hold it notwithstanding the competition of more populous rivals. The Protectionist case assumes that there is somewhere in the United Kingdom a large reserve of industrial energy, which would be called into service by the imposition of tariffs. There is no evidence of this, at least for the period we have been examining. To all appearances our

industries have been working at high pressure; wealth has been increasing by leaps and bounds, unemployment has come near the point at which it is explained by physical and moral unfitness. When "Calchas" tells us that "hardly any new industry has been founded here for the last twenty years" he is using words which have no meaning for those who are acquainted with the bustling life and unsleeping energy of the industrial centres. The specialists whose business it is to watch trade, have for each of the last three years been asking themselves whether the cycle of prosperity could possibly be prolonged for yet another year and another. But there is a limit to the trade capacity of even the most industrious country in the world. It is improbable that at any given moment we shall do equally well over the whole field of commerce. When a great deal of energy is going out into Colonial trade, there is likely to be less energy for foreign trade. Or when a large and sudden demand comes from one foreign market, the supplies will be diverted from other foreign markets. To say, in such circumstances, that the increase in the one case merely masks stagnation or decay in the other is to speak irrationally. There may even be times, as American business men commonly allege, when the foreign trade, which for the purposes of this argument we are taking as the test, ceases to be any sure guide to the prosperity of the country, for the demand of the home market may be on such a scale that it becomes unprofitable or less profitable to export. And, on the other hand, there are also times when an apparently prosperous export trade may even argue depression in the home market. We need to survey the whole field and apply a dozen different tests, before we can pronounce with certainty that trade is either advancing or declining.

If then, on surveying the recent history of British trade, we can find no substantial reason for the panic which has overtaken some of our politicians, we are rid of a large part of the case which is urged for a sudden reversal of our trade policy. But in saying this, I must not be supposed to mean that Free Trade will in itself protect us from trade depression, or the failure and decay of important industries. It is possible that one nation may decline under Free Trade and another prosper in spite of Protection. No commercial policy whatever could save us from the consequences, if the inheritors of wealth lost the strenuousness which had made wealth, or if, trusting to the old ways, we despised the weapons of precision and the scientific armament which are as necessary in modern commerce as in modern warfare. Our industrial methods have indeed in

recent years been somewhat analogous to our military methods. We mismanage the beginnings and are slow at the uptake of a new discovery, putting obstacles in our own path by blundering legislation, as in the case of the electrical industry, or more recently of the motor car industry. Or we give away a great trade, rendered possible by one of our own men of science because, unlike the Germans, we have no faith in chemists. And then, as in war, we muddle through, groaning and blundering all the while, but as a rule regaining a large share of what we had lost at the beginning, thanks to our cheaper production and conscientious workmanship. It would be folly to suppose that Protective Tariffs would help us in any of these respects, or do anything more than shelter us for a time in a restricted and inferior market. Foreign Tariffs are a great evil, but on the whole we have fought them successfully, as Peel predicted, by free imports, and we have abundant evidence from the experience of our neighbours that retaliation, so far from leading to freer trade, involves those who use it in a more stubborn and chronic Protectionism. If it is once grasped that a blow at imports is a blow at foreign trade, since it is impossible to diminish what comes in without diminishing what goes out, a large part of the argument for Protection will be recognized as a mere misunderstanding of the mechanism of trade. Apart from exchange of goods, no nation which renders such immense services to foreign nations as we do can desire to make the collection of its debts more difficult. The rest of the argument is a plea for special interests at the expense of the public, a public which, like ours, is uniquely dependent on free and abundant supplies of the necessities of life from oversea. It is not Cobdenism, but social justice which rejects these specifics; and the commonsense which forbids us to believe that we can make abundance by creating artificial scarcity will, I am confident, make short work of the sophistical pleas by which this paralogism is disguised. My purpose, however, in writing this article, was not to argue these matters, but to enter a humble protest against that process of "crabbing" the Empire and its trade which is thought to be a fit preliminary of Mr. Chamberlain's campaign.

J. A. SPENDER.

## LUMBERING IN NEW BRUNSWICK.

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BY JOHN T. P. KNIGHT.

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### A DAY WITH THE STREAM-DRIVERS.

I love the forest; I could dwell among  
That silent people, till my thoughts up grew  
In nobly ordered form, as to my view  
Rose the succession of that lofty throng.

—*Milnes.*

THERE was a pleasant smell of wood-smoke in the morning air when I started some years ago to spend a holiday with the lumbermen on the Meduxnakeag, one of the rapid streams emptying into the St. John river. The heavens looked dull, grey, and threatening. But, behind a span of horses in company with an entertaining driver, I soon ceased to look aloft for signs of the weather, and thought only of my host's pleasing invitation to visit one of his lumber camps and "see the logs going over Briggs' falls."

And so, as we left the town of Woodstock, New Brunswick, behind us, and I noticed the rushing waters of the river knowing no liquid rest, no silent slumber, as, swollen by fast melting snow and ice, its torrent carried the logs on their course to the mills, I recalled the above lines of Milnes' on the trees of the forest, and wondered what the same gifted writer would find to say of these "silent people" when, stripped and shorn of their glory of limb and foliage, they are being stream-driven to the nearest saw-mill.

However, the purpose of this paper is not a moralizing homily on woodland scenery. I merely write to give to those readers of the JOURNAL who know nothing of lumbering and lumbermen an outline sketch of stream-driving as seen by me on the Meduxnakeag.

Speaking of lumbermen and their lives of exposure and hardship, let me mention one incident of our trip to Briggs Falls as an illustration. Just as our team was leaving town,

a messenger handed to the driver a telegram. It was dated Missoula, Montana, and read:

"John is dead of pneumonia. Break gently to wife."

The telegram and a few words of explanation told the old, old story of life among our lumbermen, miners and fishermen. John, like others, had left wife and children to seek fortune in the golden republic, and died away from home. Not much to chronicle here. A common incident to the world at large. But, a life's sorrow to the one to whom my friend had to "break the news gently."

I listen to the story of John's departure to the west and also his earlier career, as we journey along the road, and after two hours driving we reach the lumber camp at Belleville. And now let me try to describe the interior of the camp. The low wooden building to which I am conducted by the chief of the gang of stream-drivers, whose acquaintanceship I am shortly to make, is the cabin of negro song and story. But, upon looking around, the interior bears noticeable resemblance to the 'tween decks in the steerage of an emigrant ship. For one side of the shanty is shelved, to the depth of some six feet, in such a way as to enable every man (these shelves being sleeping berths) to recline with his head to the wall. This is economizing space with a vengeance. The sleepers, when spooned out on these shelves, lie so close that in this cabin (the dimensions of which are not more than 20 x 20 feet) some forty men find room for what must be health-giving sleep—if one can judge by appearances. Here come the men! Let us look at them closely and see if we can discover any outward and visible signs of sickness, the outcome of their close confinement at night time.

But first let me surprise you by saying that the space reserved for sleeping quarters for the stream-drivers is evidently laid out with a view to leaving stove room and accommodation for the cook. The kitchen utensils are not numerous. A large cauldron for the reception of pork and beans; a few pots of lesser size for potato boiling and tea brewing; a stack of tin plates and mugs; some pans for bread making; a jar of molasses, and a couple of flour barrels to support the kitchen table upon which the cook is engaged in rolling some good looking paste for what I fondly hoped was pie crust. Such were all the signs of preparation for feeding a small army of strong

and healthy men. And yet everything during my stay seemed to show that the cook had no great difficulty in keeping everyone well fed and free from aches and ills. The cook was a quiet fellow with a somewhat melancholy face, and a look as if regretting that he lacked an opportunity to show his skill in the culinary art. But, I am ready to back his preparation of pork and beans against a similar dish from any lumber camp on any stream in any other part of Canada.

And now for the men. They form a picturesque group as they come tumbling into camp, and in a mechanical way squat along the bench that lines the foot of the bed—that big shelf upon which all of them are laid away at night to sleep.

Look at this burly, dark-skinned chap, whose big frame is silhouetted in the doorway against the background of grey sky. Some one calls him "Gabe," and, as he lounges to the beanpot and taking the crook-handled spoon dips out about a pound of the savoury mess on to a tin plate, I discover that "Gabe" is a Milicete Indian, and it would please Fenimore Cooper to know that this modern Uncas is a "jam-cracker," a "white water man."

A serviceable lot are the New Brunswick lumbermen. It may be that, when the logs are running well, an onlooker might think that my friends are to be envied as they lounge about in sheer idleness on the rising ground overlooking Briggs' Falls. But, let some unforeseen danger arise: Let a jam occur in the wildest of the swirling mass of logs and water above or below the falls, and these same men now bearing close resemblance, save that they are unarmed, to a band of outlaws, the *Jacquerie* of one of James's novels, will spring into dauntless activity. And God knows it is no great living that they get out of the deadly risks they sometimes run, and the lives of exposure they are compelled to lead.

And even now I have not given you any description of stream-driving. 'Tis that branch of lumbering operations which comprises the launching and floating of the trees felled by the axemen, stripped of branches and knots, and then hauled to the water's edge during the winter months.

The camp of stream-drivers visited by me contained some forty men, the advance guard of a small army at work on branches of the same stream.

For the better understanding of the work of stream-drivers, try to imagine a river swollen by spring rains and



melting snow and ice into a rushing torrent of water sweeping in ever-widening channels to the main river—the St. John, Miramichi, or Ottawa of the district—and at certain points falling perhaps forty to fifty feet through gorges, and over rocky precipices.

Imagine this bank lined on either side with the limb-shorn trunks of gigantic trees of spruce, pine and cedar. Then, to the head waters of this stream, the lumber operator sends his army of “drivers.”

The advance guard, such as my friends of the camp at Belleville, are selected for their activity, daring, and knowledge of the ways of logs when on their voyage down the rivers.

Should the logs be *jammed* in some dangerous bend or rocky gorge by hanging on a ledge or sand bar and then spreading in apparently inextricable entanglement from shore to shore, 'tis the duty of such men as my hardy friends of Belleville Camp to merit their title of “jam crackers” or “white-water men” by boarding the field of logs through and around which the water is swirling and tossing in foaming anger at the stoppage of its freedom and its race to the sea. And then they “crack the jam” with long spiked poles, to do which they leap from log to log seeking the key to the jam, or else, with tackle and horses to assist them from the shore, patiently work at the lumber until the logs are seen to move, and the floating forest is once again free to swirl and toss and turn on its way to the booms below. Dangerous work is that of the stream-driver. The sudden removal of one log, an instant of hesitation, a moment of carelessness in leaping for the shore, may sweep some unfortunate one under the logs and away with the rushing stream to his last encampment. \* \* \* As I sought the highest knoll to watch the logs go over the falls, I noticed another sign of the system and mechanism of stream-driving. A flag is lying on the ground, and, in answer to my inquiry, a beau ideal of a young lumberman, informs me that the bit of red bunting on the pole is hoisted (when the jam-crackers see signs of a jam) as a signal to those up stream to build a boom and stop the run of logs.

And now, before my day with New Brunswick lumbermen comes to an end, let us watch for a few minutes the logs going over Briggs' Falls. The falls are not high, but they are made picturesque and wild looking by the rapids above, and the rocks and dark and dangerous pools below. Here,

down the rapids approaching the falls, comes a fallen king of the forest, one of Milnes' "silent people"—the bare trunk of a big spruce tree full thirty-five feet long. It is now tossing thro' the rough waters like a chip, or a toothpick. Just where the dark stream falls over the rock into a seething cauldron of spray and foam thirty feet below, the water is smooth and oily. Into this our log rides, shoots forward, and, as it plunges downward, the butt end tosses upward like the last sight of a sea trout's tail when the stricken fish is disappearing after a leap of mortal agony. And, now, look below. Our log has gone over the falls in company with half a dozen others of smaller dimensions, and, above the ceaseless roar of the falls, one can detect the thumping and grinding of the logs as they are whirled thro' the broken water and over the rocks below. Here, twenty feet from where our spruce tree took its plunge downward, it rises again from the water *literally on end*, and, with twenty feet of its length pointing heavenward clear of the water, recalls for a moment its glory as a monarch of the forest. And then— it falls, and is lost among the other logs, its mark of ownership gleaming in a ray of light that strikes its butt as it once again becomes a stream-driven chip—a mere spruce log—one of Milnes' "silent people" shorn of glory.

## SCOTTISH COMMENT ON CANADA'S HOME RULE RESOLUTION.

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The present is an opportune time for mentioning the fact, which should have been patent to a self-governing colony, that, with or without the gracious permission of Canada, we feel a tolerable amount of confidence in our ability to manage our own domestic affairs. What we have also acquired during a prolonged and troublesome course of tuition is a fair acquaintance with the lesson that peoples and governments alike can find worse employment than that of minding their own business. These may appear to be somewhat elementary truths, and their enforcement would not have been required but for the recent resolution of the Dominion House of Commons advising His Majesty of the correct and presumably only manner in which his ancient Kingdom of Ireland should be governed. It is not too late to make plain the fact that we have not condoned, because we have hitherto neglected, the precedents upon which that resolution was based. So long ago as 1882, when Ireland was seething with treason and Mr. Gladstone, like Saul of Tarsus in his unregenerate days, had seen no visions by the way, the Canadian Parliament sent a petition to the Queen asking that a measure of local self-government should be granted to Ireland. The Colonial Secretary of the day adopted the only possible reply, that in such a question, "Her Majesty will have regard to the advice of the Imperial Parliament and ministry, to which all matters relating to the affairs of the United Kingdom exclusively appertain." Undeterred by an explanation which reads like a courteous rebuke, Canada intervened again in 1886, albeit in a less illegitimate fashion, and also, with some premature jubilation over Mr. Gladstone's project, in 1887, when Home Rule had begun to decline from the meridian of hope. Now in 1903, when separatist agitation has been succeeded by what everybody trusts is an era of political as well as agrarian peace, the Dominion Parliament once more offers its advice in a matter that "exclusively appertains to the Imperial Parliament and Ministry."

We learn with some satisfaction that for an expression of His Majesty's views upon the prayer of their petition, Mr. Chamberlain has referred the Dominion legislators to the answer given in 1882, for even at this time of day it may not

have dawned upon colonials that the sovereign of these realms is guided by "the advice of the Imperial Parliament and Ministry, to which"—it has surely escaped the notice of our pertinacious friends—"all matters relating to the affairs of the United Kingdom exclusively appertain." If this is not a diplomatic mode of suggesting to the Parliament of Canada, that its functions relate only to that very considerable tract of country bounded by two oceans, the United States and the Polar North, language has lost its meaning. What is the position of the two countries? One of complete legislative independence, in which the principle of "no taxation without representation" has been carried to the extremist limit by that very partner in the Imperial bond which offers kindly suggestions to King Edward and his counsellors as to how they should run their domestic concerns.

The absurdity of the position would be visible even to a Canadian member of Parliament were the British House of Commons, for example, to memorialize the Crown, pointing out that Canada enjoys all the benefits of naval defence without contributing a cent to the formidable cost entailed, and that "justice to Britain" demands a more equitable arrangement. Or let it be supposed that Canadian politicians should embark upon new developments in their relations with the United States. The "inestimable benefits" of the federal system are glowingly referred to in the petition as an urgent reason why we should make another and startling experiment in Ireland. But what would be said of the British Parliament if it attempted to interfere with the discussion of questions affecting the internal affairs of the provinces and their future relations to each other? We are prepared to find that the least symptom of such interference would be resented with equal vigor by politicians of all ranks throughout the Dominion, whether in French Quebec, loyal Ontario, or that home of Separatist coteries, British Columbia. We have a right to ask that colonials will have no less respect for our predilections and prejudices. The dream of Imperial federation, is, no doubt, nearer of realization than the poet's "Parliament of Man." But until it possesses substance as well as shadow, we shall be content to leave Canadians to their own devices and to go our own way—"muddling through," but rejoicing that the rewards of success as well as the penalties of failure are ours alone.

## REMARKABLE GROWTH IN CANADIAN TRADE.

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THE American "Bankers' Monthly," in discussing the expansion of our trade, says:—"A pamphlet has just been issued in connection with the meeting of the Congress of Chambers of Commerce of the British Empire in Montreal, exhibiting what proves to be a most remarkable growth in the trade of Canada in the last few years. It shows that the combined import and export trade of the Dominion has increased from approximately \$170,250,000 in 1871 to \$381,000,000 in 1901, and that during the last two years it has grown to the striking total of \$467,000,000. The percentage of increase in the last five years is over 65, twice that of the United States, twice and a half that of Germany, and more than three times that of the United Kingdom. In the main the increase recorded has been due to an expanding production of surplus for export, which, of course, correspondingly enhances the total of imports, but the exports have not alone grown in agricultural products, but in manufactures as well.

The trade statistics of the United States which have been the marvel of the age are not, strange as it may seem, either in volume or proportion of increase, as great as those of its neighbor when taken in comparison with the populations. The primary incentive to this large and rapid expansion in Canadian trade has been in the improvement of internal transportation and the opening of the great northwest to settlement. Foreign capital has been freely spent in the construction and improvement of railroad facilities and waterways. In 1871 the entire railroad mileage of Canada was little more than 2,500 miles. After the construction of the Canadian Pacific this was increased to 14,000 miles. Now it is estimated at over 20,000 miles with large and important extensions in progress. Immense sums have also been spent in improving water communication. Owing to this the shipping engaged in Canadian trade increased from about 13,000 tons in 1871 to over 70,000 tons in 1902.

The large proportion of trade to people is due to the fact that population has not kept pace with the opportunities presented. While manufacturers and industries in general keep pace with the population, agricultural production can, and has in this case, increased out of all proportion to the inhabitants. It is here that the great surplus production of Canada is to be found, in the natural products of the soil; the opening of vast and prolific areas of uncultivated land. As the value of the exports of a country must be settled by the imports principally, it is seen that the trade of Canada has grown in spite of the tariff, only that it has grown far more rapidly under the moderate schedule, existing the last twenty years, than before.

## QUESTIONS ON POINTS OF PRACTICAL INTEREST.

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**R**EPLIES may be obtained through this column to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

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The questions received since the last issue of the **JOURNAL** are appended, together with the answers.\*

### *Does Crossing amount to Certification?*

**QUESTION 563.**—A customer comes into the Bank and asks to have his cheque, which is payable to the order of a Montreal firm crossed payable at par at our Branch in that city. The Manager or Accountant complies with his request by writing the following across the face of the cheque, "Bank of ——— Montreal, please cash at par, A.B.C. Mgr." Does such a crossing amount to a certification?

Of course I am discriminating from cheques which have printed on their face "payable at par at any branch of the Bank of ———" or any similar wording.

**ANSWER.**—While not a regular certification, we consider that such a request initialled by the manager is practically an order to the Montreal Bank to pay the cheque on presentation and the Halifax Bank would not be justified in refusing to honour it afterwards.

The rule in most banks is that no cheque shall be marked payable at par at another office unless it is regularly certified.

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\* The editor fears that some questions received by him have been lost through his carelessness, and will be glad to receive duplicates of same from the senders—to whom he apologises.

*Advances on Tea, etc.*

QUESTION 564.—Is a bank justified in making advances to an importer and wholesale dealer in tea and coffee, upon the security of such merchandise, under section 74 of the Bank Act?

ANSWER.—The transaction would not be invalid. Complications, however, might arise if there were an unpaid vendor.

*Banking Etiquette.*

QUESTION 565.—Referring to question No. 554, July issue of the JOURNAL, *re* Banking Etiquette, will you please favor me with your opinion as to how the case would stand if, after exchange of parcels, as is customary in country towns, Bank "A" makes a second and special deposit of one small cheque which had been taken off their deposit that day (because improperly endorsed) by Bank "B." Would not Bank "B" be quite justified and within their rights in refusing to accept such a deposit, if for no other reason than that it was contrary to custom with banks in Canada to make more than one deposit a day with each other. The cheque was that of a large corporation (not local) payable at par at Bank "B," and there could be no question as to its being perfectly good when presented for payment, so that any doubts as to payment of the cheque could not have been the motive for such an unusual and unnecessary act.

ANSWER.—Bank "A" acted within its rights. Local custom scarcely applies.

*Railway Bills-of-Lading—Their Value.*

QUESTION 566.—A duly authorized agent of a railway company signs a bill-of-lading covering, say, 500 barrels of flour, but writes on the bill-of-lading the words "Shippers count, more or less."

The consignor actually ships 400 barrels only—fails and clears out, after getting a bank to cash his draft for the equiva-



lent of 500 barrels, and duly endorsing the bill-of-lading, which was drawn to his order.

The consignee, finding that only 400 barrels have arrived, refuses to accept the draft, and the goods are thrown on the hands of the bank.

Is the railway company liable to the bank for the value of the missing 100 barrels? In other words, does the insertion in the bill-of-lading of the words quoted relieve the railway company of responsibility to deliver the full 500 barrels or not?

ANSWER.—The railway company would be responsible only for the number of barrels of flour actually delivered to them, even if the words “shippers count, more or less” appeared or did not appear on the bill-of-lading.

*Payee of Cheque Changed by Endorsement of Maker.*

QUESTION 567.—A cheque is drawn by John Smith, payable to the order of John Brown. Smith later endorses it “Pay to the order of C. Robinson, John Smith,” the original payee not endorsing it. After being duly endorsed by Robinson, who cashes it at his own bank, it is sent through the Clearing House to the bank upon which it is drawn. The latter bank refuses payment on the ground that it is not endorsed by “John Brown.” Are they justified in refusing it, in view of the endorsement of the maker?

ANSWER.—The cheque is manifestly irregular, and the drawee bank is justified in refusing payment.

*Prefixes to Signatures.*

QUESTION 568.—A cheque payable to Mr. John Smith is endorsed the same way. Does the “Mr.” vitiate the signature? Is the rule the same with respect to any prefix, as Dr., Rev., Mrs., etc.? Kindly give full reply.

ANSWER.—A genuine endorsement, as described, while stupid, is not vitiated by such a prefix.

*Deposit Receipt—When Payable to Two Persons.*

QUESTION 569.—

\$100.

Received from John Jones and Adam Jones the sum of one hundred dollars, which amount will be accounted for to either by this bank, etc., etc.

\$100.

Received from John Jones or Adam Jones the sum of one hundred dollars, which amount will be accounted for to either by this bank, etc., etc.

Which of the above forms would be considered the better, the only point for discussion being the use of “and” or “or”?

In a discussion on this point, it was urged by one banker that, following the first form, the bank might be made liable to both parties for \$100 each.

ANSWER.—“Received from John Jones and Adam Jones the sum of one hundred dollars,” etc., would be the correct phraseology. Section 84 (2) of the Bank Act is applicable, as follows: “or if it stands in the name of two persons, the receipt of one . . . shall be sufficient discharge.”

*No Funds and No Account.*

QUESTION 570.—Is there any legal penalty for issuing a cheque for which there are no funds and no account? Is the law on this point the same for all the provinces?

ANSWER.—Under the circumstances described, it would be necessary to prove that such was done with intent to defraud. That being done, the criminal code is explicit.

*Reasonable Diligence in Presenting.*

QUESTION 571.—A bank receiving a draft for collection, happens to know positively that the drawee has transferred his place of business to another city and knows the number

and the street where the drawee is to be found—the draft is protestable for non-acceptance.

What is the better course to follow? Is it to present it to the former place of business and protest it, or to send it to a bank in the city where the drawee can be found?

ANSWER.—There is no special provision in the Bills of Exchange Act defining the duty of the collecting bank in this case. The duty is to use reasonable diligence in presenting the bill so that it may be presented to the drawee or some person having authority to accept or refuse acceptance.

With the knowledge on the part of the collecting bank stated in the question it could hardly be said that reasonable diligence had been shown unless an attempt had been made to reach the drawee at his new place of business. If the bill is directed to the drawee at his old place of business the best course to pursue would be to present the bill at this place and then to send it for presentation to the drawee at his new place of business. If he cannot be found at either place, protest for non-acceptance and mode of presentment could not be complained of.

## NOTE CIRCULATION OF CANADIAN CHARTERED BANKS.

MONTH	CIRCULATION		PAID-UP CAPITAL		BALANCE AVAILABLE FOR CIRCULATION	
	1902	1903	1902	1903	1902	1903
January.....	\$48,586,531	\$55,040,987	\$67,621,011	\$72,855,485	\$19,034,480	\$17,814,498
February.....	49,450,996	55,746,498	68,041,136	72,931,549	18,590,140	17,185,051
March.....	52,442,984	58,283,484	68,406,624	74,776,500	15,983,640	16,493,016
April.....	50,691,588	55,877,648	68,474,523	75,443,635	17,782,935	19,565,987
May.....	50,754,716	56,949,120	69,358,448	75,979,338	18,603,732	19,030,218
June.....	53,953,043	58,865,846	69,584,308	75,906,206	15,631,265	17,039,360
July.....	52,070,065	57,563,666	69,783,761	76,971,021	17,683,696	19,407,355
August.....	55,035,701	60,414,740	70,196,245	77,431,095	15,160,544	17,066,365

Increase in Paid-up Capital, \$7,284,850.

Increase in Balance Available, \$1,905,811.

## CORRESPONDENCE.

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*To the Editor :*

DEAR SIR.—Can you find room in your next issue for a complaint?

We, in offices outside the City of Toronto, are confronted with a great variety in the names used to designate some of the branches of banks in the city. In one case four different descriptions are given; two numbering stamps read "A. St. W.," and "Cor. of A. & B. St.," the endorsing stamp reads "A. St. Branch," and the letter head is "B. St. Branch." This may be clear enough to residents of the city, but to one who has not that advantage it is often confusing. The above is an extreme case, but the same is true of most of the city branches in a milder form.

Yours truly,

"OUTSIDER."

Vol. XI]

[Number 2

# JOURNAL

OF THE

## CANADIAN BANKERS' ASSOCIATION

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*JANUARY—1904*

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### EDITORIAL.

Whether the Cup with sweet or bitter run,  
The Wine of Life keeps oozing drop by drop,  
The Leaves of Life keep falling one by one.  
OMAR KHAYYAM.

To all our readers, from ocean to ocean, we extend good wishes for a Happy New Year. The seasons roll on—the old die—the elderly become old—and the young, one after another, slip their home-cables and sail away from us.

**A Happy  
New Year** But each succeeding year brings to the mind with force and interest the friendships of youth, and the particular season induces a train of pleasing thoughts and associations. It is in such a mood that we extend to the readers of the JOURNAL every good wish for this the New Year.

Canadian bankers who contend that conservatism in the banking business is disappearing before the fierce competition for accounts and the unseemly scramble for deposits will be glad to know that the members of the New York Clearing House are seriously considering the abolition of the custom of allowing interest upon current account balances. If this is accomplished across the border, Canadian bankers might follow suit. In such a movement, coming close upon the adoption by the New York Clearing House of collection charges on all out-of-town items, may be seen another sign of a return to the reign of reason, and also an indication that the new banks and trust companies in the United States are beginning to realize that deviation from the path of prudence and conservation in banking would be extremely dangerous during a period of depression. It is chiefly by safeguarding the minor profits, and by absolutely declining to pay more than money is worth, that banks and trust companies become strong, and deserving of public confidence.

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Financiers of the period we live in who may like to learn something of the methods of the money lenders, brokers and usurers of ancient times will find the article on "Bankers and Brokers in Ancient Rome," reproduced herein from the October number of the Monthly Review, remarkably interesting. In some respects the bankers of to-day might do worse than follow in the footsteps of the money-dealers who occupied offices in the business centre of classic Rome over twenty centuries ago. These early financial magnates evidently realized that money deposited with them when subject to the cheques of their clients, was not of sufficient value to entitle the said clients to interest thereon. It was only upon money lodged with these ancient Romans for a specified period that interest was paid. But, even in Canada, there may be found bankers who daily display contempt for the wisdom of a period antedating the birth of Christ by 309 years, by allowing their clients interest on current accounts. Yet these bankers and brokers of ancient Rome, if the research of Mr. Lanciani counts for aught, knew their business. They opened current accounts,

**Ancient and  
Modern  
Banking**

received deposits, and made loans—the last at a rate far in excess of the modern and modest 5 per cent., and, for money-lending purposes, they at one time reduced the legal year for computing interest to ten months. In short, it is evident that the so-called *Argentarii* of Rome who occupied banking rooms under the Colonnade of the Basilica Æmilia carried on all banking operations with prudence and sagacity, and it almost seems a pity that their very remote descendants of the present century cannot be induced to adopt the policy pursued by Titus Pomponius Atticus and his brethren when dealing with customers. There is something suggestively attractive in their way of treating depositors. Under the ancient Roman law, in the event of the failure of a banker, the claims of those having credit current account balances were satisfied before those of the holders of deposit receipts issued by the bank. Such a law in our own times might tend to discourage the inevitable seeker after that “ $\frac{1}{2}$  per cent. above the current rate” which too frequently means reduced chances of obtaining payment of the principal when disaster overtakes the venturesome custodian of his funds.

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However, when the bankers and brokers of the period mentioned are looked at from another point of view they are not to be envied. The same writer who tells us in such interesting fashion of the banking methods of ancient Rome, and who assures us that, among the patricians, as well as the plebians, existed a hitherto unrecorded spirit of “economy, frugality and thriftiness,” has to admit that nothing can be found in ancient times of institutions such as we are familiar with. There were no savings banks, hospitals, or prudential institutions. To quote Mr. Lanciani, “There was no public spirit of economy, just as there was no public spirit of charity.” The only benevolence and charity consisted of monthly distributions of corn, oil, and money to the children of the poor. It is also evident that ward-healers flourished even in the vicinity of the famous Janus Medius, the Wall Street of the ancient Roman Metropolis; as Mr. Lanciani mentions as an impediment to the growth of the spirit of thrift, the existence of a sort of Tammany Hall

From Another  
Point of  
View



from whence for purely political reasons the lower half of the Roman populace was fed at the expense of the State.

Altogether, we can cheerfully recommend Mr. Lanciani's excellent and interesting article to readers of the JOURNAL.

This matter to which attention has been drawn by a correspondent has been set at rest again and again in England. During the progress of a poisoning case some years ago the counsel for the prisoner, desirous of showing that the mere insurance of another person's life would not warrant suspicion of the applicant's motives, mentioned that the life of the late Queen was freely insured by her subjects. To clear up the confusion caused by the promulgation of the idea that any Briton could invest in a policy on the life of his queen, information was asked for from the leading insurance companies. The lawyer was found to be correct, although his statement without the explanation given by the companies was well calculated to cause surprise.

There are hundreds of cases of people holding policies on the lives of the King and of the Prince of Wales. These privileged policy holders are not speculators, but have insurable interest in the lives of the royal personages mentioned—the interest being leases of land or property expiring on the death of the King or the heir-apparent.

The estimate prepared by the Director of the United States' Mint of the World's output of gold for the year 1902 was \$285,888,600, of which Canada was credited with producing \$20,741,200, and the United States, \$80,000,000. These figures, when compared with 1901, showed an increase of 1,572,914 ounces of gold. With the greater activity prevailing in the mining regions of the Transvaal, resultant from the return of peace to that country, the production of the yellow metal for the year just closing ought to show a still further increase.

Reports of the reappearance of small-pox in the Maritime Provinces, remind one of the risk to which bank tellers are peculiarly exposed in the daily handling of notes. Vaccination and scrupulous attention to cleanliness are the surest means of avoiding this loathsome scourge. Let those who deride the practice of periodical vaccination reflect upon the strides made both in the practice and study of medicine during the present century. An American doctor, in referring to the achievements of his profession in battling with disease, made this striking reference to the results following the introduction of vaccination. He said that if a citizen of our own times could be carried backwards and dropped down in the streets of London of a century ago nothing that he could see would so greatly surprise him as the large number of faces marked with small-pox. There were then over five thousand deaths from that dread disease to each million people.

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Another of the several subjects introduced for discussion at the annual meeting of the Canadian Bankers' Association was that of better protection for the banks against forgers and burglars. It was suggested that the expense of prosecutions for forgery, and the tracing and detection of burglars, and the cost of all work requiring the special skill of detectives in connection with crimes against the banks should be borne in equal proportion by the banks. Reference was made to the success met with by the American Bankers' Association in its adoption of a similar plan of protection. From the annual report of Pinkerton's National Detective Agency to the American Bankers' Association it appears that each succeeding year the operations by professional forgers against members of the said Association are diminishing, and it is claimed that this is due to prompt and active measures taken by the Association, and to relentless prosecution. Of course, as was pointed out during the discussion of this matter, the banks cannot expect to enjoy the burglary protection aimed at by the Association unless they comply with certain conditions involving the adoption of all possible precaution for the protection of cash and securities. While the modern steel vaults and electrical alarms almost defy

the attacks of the most skilful burglar, there are among our bank managers several who still pin their faith to the protection of their treasures by one or two officials on guard-duty at the bank. A modern instance of the protection derived from having an official quartered on the bank premises at night-time may be found in the annual report of the American Bankers' Association. On November 30th, 1902, the Bank of Westville, Ind., was attacked by burglars who murdered Wealey A. Reynolds, a sixteen-year-old boy. Reynolds was employed in the bank during the day, and slept in a room above the banking office at night. He was killed while heroically defending the bank to the last extremity. More than thirty shots were exchanged before Reynolds received a fatal one. Meanwhile he had seriously wounded one of his assailants, and the burglars did not remain to attempt operations on the safe.

Through the efforts of the American Bankers' Association twenty-one forgers and swindlers were captured and sentenced to long term of imprisonment during the year ending September last. Thirty-three safe burglars were captured, twenty-six of whom were convicted and sentenced.

However, before Canadian bankers in their search for greater protection against burglars and forgers adopt the methods of the American Bankers' Association, it is more than likely that investigation by a special committee may reveal several flaws in the system advocated for adoption in this country. Some years ago a committee of Canadian bank managers examined into this same system and completely failed to interest the chartered banks in the question as discussed at the Annual Meeting in November last. At this meeting, the gentleman who introduced the subject drew particular attention to the necessity of seeing that criminals successfully prosecuted by the banks are not released without serving the sentence imposed upon them. He and others will find something to think about in the following extract from the "Chicago Banker" of December 24th:—

W. A. Pinkerton is still explaining how it was that he succeeded in getting Dunlap, the bank robber, out of the penitentiary. The

Pinkerton Agency receives \$40,000 a year for catching bank burglars and locking them up, and many of the officers of the American Bankers' Association think that they should have been consulted before the king of all the robbers was given his liberty. While bankers are interested to know what Mr. Pinkerton's motives really were, those near at home would be glad to hear from Andrew Russell, of Jacksonville, formerly president of the Illinois Bankers' Association. The onus of releasing Dunlap has been largely thrown upon Mr. Russell's shoulders as a member of the Pardon Board, and *The Chicago Banker* would be glad to publish anything that he has to say on the subject. It is noticeable in reading Dunlap's history that he succeeded in stealing over five million dollars from banks alone, and that each time he was arrested and locked up he managed to secure in some manner a pardon or release from the penitentiary. His last sentence after robbing several Illinois banks was for twenty years, of which he served but three in the penitentiary. Will Mr. Russell kindly state his position in the matter?"

The Executive Council of the Canadian Bankers' Association will probably deliberate long, before asking its members to contribute any large amount money for the conviction of criminals who cannot be kept in prison.

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At the Annual Meeting of the Canadian Bankers' Association in November, no less than twenty-eight of the thirty-three chartered banks were represented by their chief executive officers, or duly accredited deputies. But the Associate members were mainly conspicuous by their absence. The reason for this, as was explained by the Chairman and others, is not far to seek.

Since the incorporation of the Canadian Bankers' Association, in 1900, when the Government imposed upon this body the work of inspecting the circulation accounts of all the chartered banks and other important duties, the Executive have not been able to devote time and attention to arrangements for "lectures, discussions, examinations, and competitive papers," such as were contemplated in the interests of the associates by the framers of the by-laws. At the close of the annual meeting in 1902, the associates held a conference in Toronto, and discussed the possibility of founding an institute for the purposes outlined. Contributions towards the expense of maintaining such an institute were promised by several of the banks. A committee was formed, but no progress in the desired direction has yet been made. Now, nothing daunted by the failure

of their Toronto brethren, a large number of associates resident in Montreal are striving to arouse interest in a similar project, and a report of the preliminary meeting held for this purpose will be found elsewhere in our columns.

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That the banks intend to maintain the recent expansion in their cash assets is made evident by the gradual increase in their holdings of Dominion notes. On the 31st January of the present year, the chartered banks were in possession of \$25,148,231, while the close of November showed the total amount to be \$30,464,185. There is also a notable increase during the same period in the total amount of specie held in the vaults of the banks. So long as our banks display such caution in prosperous times, we may reasonably hope that no period of depression will find them unprepared.

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Interesting on both sides of the Atlantic to students of the economic question now occupying the attention of banking and business men is the chapter published in this number of the JOURNAL in continuance of Prof. Shortt's "History of the Canadian Currency."

**Something  
About Prefer-  
ential Systems  
and Trade**

Even men of political opinions as divergent as the North and South Poles will find it instructive, if desirous of obtaining light and information upon the vexed questions of preferences and trade policies, to read the first five paragraphs of Prof. Shortt's work, and then turn to perusal of the scholarly article by Prof. Flux upon the "Condition of British Trade."

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At the close of the series of lectures delivered by Professor Flux at McGill College last winter, the bankers who attended same were invited to send to the learned lecturer essays upon any economic problem or banking subject they might select. One of said essays is published in the present issue of the JOURNAL:—"Paper Currency," by Mr. George Howard, of the Royal Bank of Canada.

**Essays by  
Bankers**

The paper in question should serve to encourage the gentlemen now attempting to establish an institute for the purpose of assisting bank officials who desire to acquire the theory while engaged in the practice of banking.

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The presence of such a large number of general managers at the annual meeting of the Canadian Bankers' Association made the gathering one at which it was possible to thoroughly dissect every subject presented for discussion, and, among said subjects, not one received greater attention from the meeting than that of the note circulation of the chartered banks. While it was clearly shown that every reasonable precaution has been adopted by the banks in the past for the protection of their note issues against forgery or fraud, and the utmost care exercised in keeping record of the issuance and destruction of notes, it was thought desirable to have the present system even more thoroughly investigated. A special committee of six general managers has therefore been appointed "to examine and report at the next meeting of the Executive Council upon the present methods of the banks in ordering, receiving and destroying notes." That such caution should be displayed is not surprising, when one remembers that the banks are joint guarantors of an issue of notes amounting at the close of November to sixty-seven million dollars.

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A recent judgment of the Privy Council has surrounded all contracts made by lenders of money to wives separate as to property with such serious doubt, that Canadian trust and loan companies contemplate approaching the Provincial Government at its next session for the purpose of securing an amendment to the law on the subject. The Canadian Bankers' Association has been asked to join with the leading loan and trust companies in this movement. Solemn declaration on the part of the husband and the wife that an advance of money is not in any way directly or indirectly for the benefit of the husband but solely

for the wife is one of the suggested changes in the present law. In the interests of all parties contracting in good faith with the wife with due authorization by the husband, the bankers will probably assist trust and loan companies in their effort to make the Provincial Government look at this matter from the lender's point of view.

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Despite the fact that bankers and close students of financial affairs have been debating in the press and on the public platform for several years past the so-called currency question of the United States, it appears that no change is absolutely necessary. At least, such is the opinion of the United States Senator William B. Allison, and, having the courage of his convictions, he does not hesitate to give expression to his views, even before the hard-headed bankers of Chicago. So far as can be gathered from the report of proceedings, the senator's audience listened to his views without criticism, favorable or otherwise. As Senator Allison in the course of his address admitted that the banking system of his country "lacks elasticity in one respect—that is, that National banks cannot curtail their circulation at will, although they can increase it at will," one might reasonably have expected that an admitted weakness which has been occasionally responsible for monetary disturbance would have provoked adverse criticism from the Chicago bankers. They, however, being his hosts, were politely silent, and Senator Allison in closing, possibly grateful for the freedom from hostile comment, told them that through every period of financial distress they had "conservatively and safely managed great monetary affairs." The opinions expressed by Senator Allison, who has for the past thirty years taken part in the framing of the laws under which the present United States financial system has been developed, are deserving of serious consideration. He finds the Canadian system, which he admits to be *an excellent adaptation to the financial conditions of the Dominion, perfectly impracticable* across the border. He does not expect the present Congress will change the monetary system, neither does he consider any change therein needed. Senator Allison's defence of the present United States financial system is largely

based upon the views expressed in the following extract from his address:—

“The national banking system, as it stands to-day, provides absolute security for our national bank circulation and for all the circulation issued more directly by the government. So all our money, paper and coin, is absolutely safe in the hands of the people and is absolutely convertible at the will of the holder into gold coin, the money in which all the world's exchanges are made.”

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When sending to the author of “The History of Canadian Currency” the proof of matter contained in this number, the Editor marked the second paragraph, as an indication of his desire to avoid becoming a disputant in the present preferential controversy. Professor Shortt, in explanation, writes concerning the paragraph in question:—

“It simply comes in as part of the usual attempt to give the essentials of the economic setting of the monetary situation, and the statement is based upon ample contemporary evidence, official and non-official.”

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Among the unanswered Questions on Points of Practical Interest submitted to the JOURNAL is one of more than ordinary interest. It is important that no element of doubt as to the legal liability in such a case as that given

<b>Cheques on</b>	should exist, and we hope that the bank concerned,
<b>Other</b>	if the question is based upon an actual occurrence,
<b>Branches</b>	will resort to the courts for a decision.

If the cashing of a cheque at any office of a bank is equivalent to cashing it at the office it is actually drawn upon, the sooner every chartered bank is put upon its guard the better.

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Owing to pressure upon our space, the essay on “Commercial Crises,” by Mr. Cecil Wother-spoon, and other matter contributed by those who attended the series of lectures delivered by Professor Flux at McGill College, cannot be published in the JOURNAL.



Despite the desperate condition of British industry as unpleasantly pictured by some of the pessimists in public life, some one is evidently doing business at the same old stand in

Cheering

Figures From  
London

Lombard Street, London, E.C.

From the annual statement of the Bankers' Clearing House of the British metropolis for 1903 it appears that the total of £10,119,825,000 is "*the largest amount passed through the London Clearing House in any one year,*" and, lest some captious critic of the commerce of England should ascribe the result to activity in company flotation and stock-jobbing, Mr. J. H. Tritton, the compiler of the report, says:—"Once more we have to record that the Stock Exchange Settling Days show a decrease as compared with the previous year." This adds one more to the few instances where, as in Montreal, the Stock Exchange figures show a decrease, and the grand total of clearings an increase.

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The many friends, in Montreal and elsewhere, of Mr. George H. Balfour, will be pleased to hear of his promotion to the responsible and important position of general manager of the Union Bank of Canada.

Mr. G. H.

Balfour, Gen-  
eral Manager

Mr. Balfour has been connected with the bank, now entrusted by its directors to his control, since 1871. For many years past he has been the manager of the bank's branch at Montreal, and the good wishes of all the fellow bankers of Mr. Balfour will follow him to his new home and duties in the city of Quebec.

J. T. P. K.

## TWELFTH ANNUAL MEETING OF THE CANADIAN BANKERS' ASSOCIATION.

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THE Annual Meeting of the Canadian Bankers' Association was held in the Board Room of the Merchants Bank of Canada, at Montreal, on Thursday, November 12th, 1903.

In the absence of the President, Mr. D. Coulson occupied the chair. The following members were present :—

Bank.	Represented by
The Bank of Montreal . . . . .	A. Macnider.
The Bank of New Brunswick . . . . .	W. E. Stavert.
Quebec Bank . . . . .	Thos. McDougall.
The Bank of Nova Scotia . . . . .	H. C. McLeod.
The Bank of British North America . . . . .	H. Stikeman.
The Bank of Toronto . . . . .	D. Coulson.
The Molsons Bank . . . . .	Jas. Elliot.
The Eastern Townships Bank . . . . .	Jas. Mackinnon.
The Ontario Bank . . . . .	Chas. McGill.
La Banque Nationale . . . . .	N. Lavoie.
The Merchants Bank of Canada . . . . .	Thos. Fyshe.
The Peoples Bank of Halifax . . . . .	D. R. Clarke.
The Bank of Yarmouth . . . . .	T. Johns.
The Union Bank of Canada . . . . .	G. H. Balfour.
The Canadian Bank of Commerce . . . . .	B. E. Walker.
The Royal Bank of Canada . . . . .	E. L. Pease.
The Dominion Bank . . . . .	T. G. Brough.
The Bank of Hamilton . . . . .	J. Turnbull.
The Standard Bank of Canada . . . . .	Geo. P. Reid.
La Banque de St. Jean . . . . .	P. H. Roy.
La Banque d'Hochelaga . . . . .	M. J. A. Prendergast.
La Banque de St. Hyacinthe . . . . .	J. V. A. Moreau.
The Bank of Ottawa . . . . .	Geo. Burn.
The Imperial Bank of Canada . . . . .	D. R. Wilkie.
The Western Bank of Canada . . . . .	T. H. McMillan.
The Traders Bank of Canada . . . . .	H. S. Strathy.
The Sovereign Bank of Canada . . . . .	D. M. Stewart.
The Metropolitan Bank . . . . .	W. D. Ross.

Mr. J. T. P. Knight, Secretary of the Association, acted as Secretary of the Meeting, and read the report of the Executive Council, which was as follows:—

The Executive Council beg to report regarding the work of the Association during the year under review as follows:—

In the Report submitted to the members by your Council in November of last year, reference was made to the duties imposed upon the Association by Parliament in connection with the supervision of the bank note issues.

Your Council are able to report that, since the last Annual Meeting, the circulation accounts of every chartered bank in the Dominion have been examined, as required by subsection E., of By-law 13, and the figures of the returns rendered to the Association compared with the books of the banks. The reports on said examinations have been duly made by the Secretary to the President, and by the latter submitted to the Executive Council. Statements of circulation have also been forwarded to the chief executive officers of the banks.

The Council, at the annual meeting in 1902, favoured adherence to that provision of the Bank Act which limits the circulation of the banks to the amount of their paid-up capital. Since then, the paid-up capital of the banks has already been increased by \$7,008,446, while the increase in circulation for the same period has only amounted to \$2,775,469. These figures are taken from the special reports rendered to the Association by the banks at the close of September, at which time the balance of notes available for circulation amounted to \$13,039,937. It would therefore seem that there is no immediate necessity for specially supplementing the supply of currency, as it appears to be sufficient for the present requirements of the country.

At several meetings of the Executive Council, the Association Money Order System has been discussed, and it has been decided to maintain the method of selling and cashing orders payable at the office of any and every chartered bank.

Since the resignation of the Editing Committee of the JOURNAL, to whose valuable services reference was made in the last annual report of the Council, the quarterly magazine has been under the editorial management of the Secretary of your Association. While referring to the JOURNAL, the Executive Council wish to express their thanks to the following gentlemen:—Mr. R. B. Kessen, Manager, Bank of Ottawa, Montreal;

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Mr. E. C. Pratt, Manager, The Molsons Bank, Montreal; Mr. W. M. Ramsay, Manager, Merchants Bank of Canada, Montreal. As members of the Questions Committee, they have undertaken the control of that most important department of the JOURNAL:—"Questions upon Points of practical Interest."

At the last annual meeting, a Committee was appointed from among the Associate members to devise plans whereby associates might be enabled to enjoy the opportunities for "Lectures, Discussions, Competitive Papers, and Examinations," mentioned in By-law No. 11. The Committee appointed have failed in arousing sufficient interest in the suggested scheme to warrant proceeding for the present with the formation of an institute.

During the year, the Association has given attention to all measures introduced in both the Senate Chamber and the House of Commons, the character of which seemed to menace the interests of banking and commerce.

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The following report from the Winnipeg Sub-section was also accepted:—

*To the President and Members,  
Canadian Bankers' Association,  
Montreal.*

GENTLEMEN:—The Annual Meeting of the Winnipeg Sub-section was held on the 6th of June, 1903.

Mr. J. B. Monk, Manager of the Bank of Ottawa, was elected Chairman, and Mr. N. G. Leslie, Manager of the Imperial Bank of Canada, Secretary, for the ensuing year. The following members were appointed a Board of Management of the Clearing House, viz.:—

Mr. C. Bartlett, of the Bank of Hamilton.

Mr. A. J. C. Frigon, of La Banque d'Hochelaga.

Mr. W. A. Machaffie, of the Bank of British North America.

Mr. Bartlett was also nominated to represent the Banks on the Winnipeg Board of Trade Council.

Since our last report, the Eastern Townships Bank has established a branch in Winnipeg, and become a member of the Sub-section.

Following our custom, the Sub-section obtained reports on the crops from a large number of reliable correspondents throughout Manitoba and the Territories. We find that although the wheat acreage is greater than last year, the average yield per acre is less (say 16 bushels as against 25 bushels). The grade is lower, but owing to better prices which now prevail, and decrease in freight rates, the net results should nearly equal that of last year. The increase in interior and lake terminal elevator capacity, together with greater railway equipment, will enable the transportation companies to handle the crops to better advantage than heretofore.

We look for a total yield this year of about 100,000,000 bushels of grain, viz.:—Wheat, 50,000,000 bushels; barley, 10,000,000 bushels; oats, 40,000,000 bushels; flax, 600,000 bushels.

Acreage under cultivation, 1903, in Manitoba and the North West Territories, 4,670,770 acres. Acreage under cultivation, 1902, in Manitoba and North West Territories, 4,029,252 acres. Increase, 641,518 acres.

Storage capacity at Fort William and Port Arthur, and interior elevators, about 40,000,000 bushels.

We are glad to report that the general trade of the North West is rapidly increasing. Scarcity of labour and materials have retarded building operations in Winnipeg and towns throughout the West. Railway extensions have also been restricted through the same causes.

Immigration from the United States is still a marked feature in the West.

The Secretary then read the following list of gentlemen elected as officers for the ensuing year:—

#### Honorary Presidents.

Lord Strathcona and Mount Royal,

President, Bank of Montreal.

Geo. Hague,

Montreal.

## President.

E. S. Clouston, General Manager, Bank of Montreal.

## Vice-Presidents.

Duncan Coulson, General Manager, Bank of Toronto.

Geo. Burn, General Manager, Bank of Ottawa.

H. Stikeman, General Man., Bank of British North America.

M. J. A. Prendergast, General Man., La Banque d'Hochelaga.

## Council.

B. E. Walker, General Man., Canadian Bank of Commerce.

Thos. Fyshe, General Man., Merchants Bank of Canada.

D. R. Wilkie, General Man., Imperial Bank of Canada.

Thos. McDougall, General Manager, Quebec Bank.

Jas. Mackinnon, General Man., Eastern Townships Bank.

W. E. Stavert, Manager, Bank of New Brunswick.

Jas. Elliot, General Manager, The Moleons Bank.

P. Lafrance, General Manager, La Banque Nationale.

Geo. P. Reid, General Manager, Standard Bank of Canada.

T. G. Brough, General Manager, The Dominion Bank.

E. L. Pease, General Manager, Royal Bank of Canada.

E. E. Webb, General Manager, Union Bank of Canada.

D. R. Clarke, Cashier, People's Bank of Halifax.

H. S. Strathy, General Manager, Traders Bank of Canada.

## Auditors.

T. Bienvenu, General Manager, La Banque Provinciale.

J. Gillespie Muir, Chief Accountant, Merchants Bank of Can.

Considerable business of an important and interesting character was transacted during the session of the Association, and reference to some of the matters under discussion will be found in the editorial columns of the JOURNAL.

## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

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### EXPANSION DURING THE FIFTIES.\*

THE period from 1850 to 1857 was the most remarkable era of industrial and commercial expansion which Canada had ever known. The abolition of the British corn laws in 1846 and the introduction of general free trade had, of necessity, a revolutionary effect upon the colonial policy of the Empire. In the first place it involved the abolition of the system of preferences upon colonial produce, especially grain and timber. The preference upon wheat had been built up chiefly for the benefit of Canada, that upon timber for the benefit of Canada and New Brunswick, or at least for the benefit of British capitalists and shippers dealing with those provinces, and the preferences upon supplies for the West Indies were for the general benefit of the British North American Colonies. Britain herself had reserved, as a basis for her shipping interests, both her own trade with the colonies and the trade between the colonies. Through Britain's change of economic policy all these preferences and monopolies were swept away within a few years.

The abolition of the preference upon colonial grain, which took effect between 1846 and 1849, but slightly affected the

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\*Chief sources:—

Journals of the Legislative Assembly, and of the Legislative Council of the Province of Canada, with Sessional Papers, 1852-62.

The Provincial Statutes of Canada, 1852-57.

Copies of Various Bills, as presented to the Provincial Legislature, 1852-57.

British Blue Books relating to Canada, 1846-56.

Canada, 1849 to 1859. By The Hon. A. T. Galt, Finance Minister of Canada. Quebec, 1860.

*Hunt's Merchants' Magazine and Commercial Review*, New York, 1854-57.

*The Canadian Merchants' Magazine and Commercial Review*, Vol. I., Toronto, 1857.

*The Globe*, Toronto, 1849-57.

Canadian farmers so little had they actually benefited by the preferential system. But it was severely felt by the Montreal and Quebec millers and shippers, who had been enjoying a very considerable bounty, at the expense of the British consumer, in their transactions in wheat from the western States, which was ground into flour for the British market. The loss of their highly artificial profits precipitated the troubles of 1849 in Montreal bringing out the celebrated Annexation Manifesto. But the trouble was as local as it was temporary.

The repeal of the Navigation Laws in 1848, by reducing freight rates from Canadian ports, did much to offset the loss of the bounty on American wheat, and, a few years later, the loss of the preference on British North American timber. But the greatest advantage which came to the colonies from the destruction of the old colonial system, was the rousing of their people from a stagnating dependence upon British bounties and preferences. For the first time they were induced to seriously undertake the development of their own country for its own sake, and on their own initiative. A conscious spirit of local pride and ambition once aroused, the reaction from the previous attitude of timidity and dependence was almost incredible. Very naturally it carried the country over into the opposite evils of reckless and even impossible speculation.

One of the first and most important fruits of this new spirit of enterprise was an extensive policy of railroad development, which in a few years expanded into what was virtually a railroad mania. This involved the immense investment of actual capital and the assuming of obligations, public and private, which were indeed far beyond the financial capacities of the people, or their government, at the time. The greater part of the capital was supplied by British investors, and many of these had occasion to lament the unprofitable nature of many of the enterprises, from a dividend point of view.

From 1850 to 1856 it was estimated that about \$60,000,000 of capital had been invested in railroads and canals alone, and almost all of this had been supplied from Britain. The population of the country was rapidly increasing. The imports, through which much of the British capital came to the country, were more than doubled, while exports also greatly expanded, notwithstanding that very much more domestic produce was being consumed in the country itself. In 1854 a



reciprocity treaty with the United States, very favourable to Canadian agricultural produce, was negotiated by the Home Government. This opened a market for minor farm produce, which at that time could not find profitable export to Britain. Notwithstanding the abolition of the preferential treatment of Canadian wheat, Britain continued to take our grain in increasing quantities and at better prices.

Naturally such an exceptional period of economic expansion had a correspondingly unique effect upon the banking interests of the country. There arose a great, and often pressing demand for bank accommodation, both in exchange and discounts, and a steady increase in the need for domestic currency. The profits of banking were high, and new bank stock was rapidly taken up.

Under the newer and more speculative conditions of Canadian enterprise the business of banking was not only expanded but considerably changed. The banks, therefore, faced many new experiences at a time when their management was not particularly strong; indeed, in some cases, it was little other than fossilized. Altogether it was a trying period for the Canadian system, especially in Western Canada. When the inevitable crisis came, in 1857, it was not so sharp as during the period of general suspension in 1837-8, but it was much more radical and far reaching. The banks managed to come through the new trial without suspension, yet they suffered far more severely than before. The leading western banks were so paralyzed by the general wreckage in which they were involved, and by the waterlogged condition of the securities which they held, especially through their entanglement in land and railroad speculations, that they never recovered from the effects of the boom. After much floundering and many futile attempts at recovery, with, unfortunately, much misleading and even false protesting of their soundness in the vain effort to restore public confidence, the two oldest and most respectable of the western banks, the Bank of Upper Canada and the Commercial Bank, were finally compelled to go into liquidation and pass out of existence. Several other banking ventures, born of the new enterprise, also died with it, or even before it, in some cases. Up to this time it had been the proud boast of the

Canadian people and their government, in evidence of the soundness of their financial institutions, that no Canadian chartered bank had ever failed. But it was in no small measure due to the uncritical confidence, born of this over-worked statement, that after this period it ceased to be available.

We have now to trace some of the important details of this new era in Canadian financial history.

In 1850 an act was passed, applying to all incorporated banks, greatly facilitating and enlarging the rights of the banks with regard to holding mortgages on real or personal property as collateral security. The banks were permitted to purchase any property so mortgaged to them, when sold under the mortgage, and might acquire a title to any real estate in the ordinary manner under sheriff's sale. No limit was specified to the amount or value of land which might be so held, or the time during which it might be held. This was a particularly unfortunate measure, coming as it did at the very beginning of a period of unusual expansion in land values, culminating in a land boom such as had hitherto been experienced only in the newer States. In fact, this act had the very natural effect of allowing the collateral security to become, in too many cases, the chief security. Thus, bank funds were liberally drawn upon in aid of a widespread speculation in land, and when the collapse occurred the banks found themselves loaded up with large tracts of real estate, which could only be disposed of at a very great sacrifice. The banking mechanism being choked with land, and much of it wild land at that, the effect upon the general business of the country may be imagined.

When the new Coalition Government came into power in 1854, one of the first problems with which it had to deal was the rising demand for increased banking accommodation. Mr. Cayley, the new Finance Minister, was inclined to favour the older and cheaper form of chartered banking, rather than to promote the expansion of the newer and more heavily secured system of free banking.

In the speech from the Throne, of 1852, it had been hinted that it was the intention of the Government to include the municipal debentures, issued in connection with the Upper and Lower Canadian Municipal Loan Funds, as securities available for deposit by the free banks. It was pointed out at the

time, that the operation of the free banking act had been greatly crippled, from the fact that it had become difficult to procure the regular Provincial debentures, which alone were accepted under the law as it stood.

The need for increased accommodation was great, and it was understood that considerable funds were ready to be invested in banking if the municipal loan securities were accepted as deposit. The Government, however, did not find time to bring in a measure on this subject during the session of 1852-3, and when parliament once more took up the business of the country, Mr. Cayley had succeeded Mr. Hincks as Minister of Finance.

During the session of 1852 a bill was passed to encourage the issue by the chartered banks of notes secured in the same manner as under the free banking law. In the first place, the banks were permitted to issue notes, over and above the limit of their paid up capital, to the extent of the bullion and public securities held by the banks. But the chartered banks were permitted to issue these extra notes without depositing their securities with the Government, or having the notes registered. Yet the banks operating under the free banking law were required to do both. The notes issued by the chartered banks under these conditions, shared with those of the free banks, exemption from the taxes levied upon the ordinary note circulation.

Towards the end of October 1854, Mr. Merritt moved for the appointment of a Committee to enquire into the banking affairs of the Province, with a view to discovering why the free banking system in Canada had not been as successful as in the United States. After some discussion, which tended to show that the feeling of the House rather favoured the extension of the chartered bank system, Mr. Merritt withdrew his motion. Mr. Cayley somewhat compromised matters by siding, in general, with the chartered banks, while proposing that, in future, banks receiving authority to increase their capital stock, and any new banks should be required to deposit with the Government provincial or municipal debentures to the extent of one tenth of their capital stock. This policy, as we shall see, was adopted, though it had a somewhat weakening effect upon the

bank policy of the Government. Quite obviously this new plan, while it made considerable market for public debentures, did not insure the solvency of the banks, or adequately protect the note holders. As a matter of fact, under the law already cited, and as afterwards embodied in the bank charters, the banks were permitted to issue extra notes to the extent of the securities held by them. Yet the apparent security afforded the public, by requiring the banks to invest one tenth of their capital in Government debentures, led to a growing tendency to grant charters to all applicants who were prepared to accept these terms. Indeed Mr. Cayley in a speech on the subject virtually pledged the Government to such a policy, with results that were sufficiently unfortunate. Under these circumstances practically no new banks were established under the free banking system, while those already operating under it sought and obtained admission to the chartered fraternity.

Another part of Mr. Cayley's financial policy related at once to the currency needs of the country and to the growing objection to the practice of the Government in keeping its accounts, and especially all its balances, with one bank. At special seasons of the year, when heavy payments were made on account of customs' collections, there occurred an extensive transfer of funds, either in specie or its equivalent, from the other banks of the country to the Bank of Upper Canada, which held the Government deposits. The consequence was that the other banks were placed at a great disadvantage, as compared with the Bank of Upper Canada, in granting accommodation to their customers. This complaint naturally grew with the increasing business of the country. About the end of November 1854, Mr. Cayley announced that the Government was prepared to give instructions to the custom house officers to receive, in payment of duties, bank certificates of deposit, (practically marked cheques,) bearing three per cent. interest, and drawn for thirty or sixty days. The Government was also declared to be ready to loan its floating balances to the banks at three per cent., on condition that they should deposit with the Government municipal debentures to the extent of the loans obtained. These loans were to be held on time, not on demand, the time to range from six to nine or twelve months.

In order to give more stability to the values of the municipal loan debentures, the Government proposed to limit the amount to be issued to £2,500,000.

The question of the relations of the Bank of Upper Canada to the Government belongs in large measure to the purely financial history of the country, yet certain phases of these relations also fall within the history of banking. Already the bank was indebted to the Government for large sums of public money, which were held by it nominally as a Government deposit, but really as a permanent loan from the Government, on which, however, the bank paid no interest. In the report of a select Committee on Public Accounts appointed during the session of 1854-5, it is stated that on September 30th, 1854, the Bank of Upper Canada was enjoying the use of public funds, without interest, to the extent of £202,008. At the same time the seven other chartered banks held balances to the extent of only £43,815, without interest. As regards the Bank of Upper Canada the situation continued to grow worse, for the Government found itself unable to withdraw its funds. So that, while the bank held large deposits of public money, the Government was forced to borrow elsewhere to meet its temporary needs. Thus, as stated in a subsequent report, the relationship between the bank and the Government, which began by the bank affording aid to the Government, ended by the Government carrying the bank. In extenuation the bank claimed a verbal understanding with the Government that the public deposit placed with it should never fall below a certain large amount, stated as ranging from \$800,000 to \$1,000,000. These matters, however, will be dealt with more fully when we come to deal with the collapse of the bank.

In 1855 Mr. Merritt brought in a bill to amend the Free Banking Act, in order to extend the range of operations of the banks acting under it. One object of the amendment was to permit the free banks to establish branches, or offices of deposit and discount, in any part of the province, but the notes of each bank to be redeemable at the office or branch at which they were issued. Another provision was that shares in these banks might be legally transferred in Britain. It also sought to

assimilate their system of note issue to that of the chartered banks, by permitting the free banks to issue notes, beyond the securities deposited, to the extent of the specie which they held in reserve. Instead of passing this bill, the Government permitted the free banks already established to obtain regular charters. Thus, except for the small notes obtained under it by the Bank of British North America, the Free Banking law became a dead letter. On this account, in March 1857, Mr. Cayley brought in a bill to abolish the free banking system, but the movement developed unexpected opposition. Mr. Merritt, who had introduced the system, stoutly defended it and very correctly represented its failure as due to its not being properly supported. Throughout the country, too, the proposed abolition met with much opposition; the Boards of Trade of both Toronto and Hamilton petitioned against the new bill. Another petition, praying for the retention of free banking, was sent from Three Rivers. In this it was represented that several persons there had formed a joint stock company, in accordance with the provisions of the act, and intended to go into business as a free bank. In the face of these representations Mr. Cayley withdrew his bill, and free banking remained a legal system for some years to come.

We have now to trace the remarkable expansion of the chartered bank system during the fifties. During the session of 1852-3 the reviving demand for banking accommodation began to show itself in petitions for capital expansion by the old banks and for the granting of charters to new ones. During this session the Bank of Montreal obtained an act increasing its capital stock by £250,000, making its total capital £1,000,000. It also obtained the right to make its shares transferable and its dividends payable in Britain. The capital stock of the Quebec Bank was also increased. During the same session a petition was received from Alex. Kilborn and others, praying for the incorporation of the Stanstead County Bank. When this bill was brought up Mr. Hincks, who was still in power, stated that the Government was opposed to chartering any new banks, as the free banking law amply provided for the normal expansion of banking; the petition therefore met with no response. On the subject of the Quebec and Montreal

banks, Mr. Hincks stated that the Government had no objection to increasing the capital of the chartered banks already in existence.

The Commercial Bank and the Bank of Upper Canada had not yet disposed of the last increase in their capital stock. But with the rapidly rising business and profits of banking the remnants of those issues were soon taken up.

After the change in the Government, and the adoption of a more liberal, not to say lax policy towards chartered banks, there was quite a rush for new charters and increased capital. During the session of 1854-5 the Bank of Montreal petitioned for a further large increase of capital. In the course of the debate on the bill Mr. Hincks evinced some change of attitude towards the chartered banks. He said that he now recognized more fully than before that Canada could not furnish sufficient capital to meet the rapidly expanding banking needs of the country, and in order to induce foreign and especially British capital to enter the country, it was necessary to permit British capitalists to invest in the chartered banks, which were well known in Britain, whereas the free banks and the newer ones were not. It was to facilitate such investment also that the right was granted, first to the Bank of Montreal and afterwards to almost all the other banks, to transfer their stocks and pay their dividends in Britain.

The new Bank of Montreal bill was duly passed and contained certain important amendments which were included in all the other bank acts of this period. The authorized capital of the bank was further extended by £500,000, making its total authorized capital £1,500,000, or \$6,000,000. The bank was authorized to pay its directors in addition to its president, while they were at the same time to be prohibited from engaging in banking on their own account or being directors or officers in any other bank.

The bank was also permitted to take mortgages on ships and vessels as collateral security. The chief amendments which passed into all the new charters were the following. In accordance with the new policy of the Finance Minister, one tenth of the whole paid up capital of the bank was required to be invested in debentures of the Province, or of the Consolid-

ated Municipal Loan Fund. New regulations were adopted with reference to the transferring of shares, and the bank was exempted from responsibility with reference to certain trusts. Instead of the half-yearly returns made to the Government in the past, monthly returns were henceforth required. Lastly, the charter was continued in force till the year 1870.

During the same session the capital stock of the Bank of Upper Canada was increased by £500,000, making its total capital £1,000,000, and the various new features referred to in the Bank of Montreal charter were added. The capital of the Quebec Bank was still further increased by £250,000 and the new clauses added. The capital of the Commercial Bank, like that of Upper Canada, was doubled, making it £1,000,000. The charter of the City Bank was also brought up to date. During the crisis of 1848 the severe losses of the City Bank had compelled it to seek and obtain a reduction of its capital stock by lowering the value of its shares from £25 each to £18 15s. Under the revival of prosperity it was now able, from its accumulated profits, to raise its shares to £20. At this time it obtained authority to increase its capital stock by £60,000, in shares of £20 each, thus restoring its total capital to the former amount of £300,000. The charter of the Banque du Peuple was amended and its capital stock increased by £200,000.

Notwithstanding these rapid and enormous increases in the capital stock of the older banks, which, as we have seen, amounted to doubling the capital of the three largest of them, a swarm of quite new banks came forward seeking charters. It was during this session also that the banks operating under the free banking law obtained their transfers to the status of chartered banks, with all the new amendments. These were the Molsons, the Zimmerman, and Niagara District banks.

The Molsons Bank had a debenture capital of £50,000. Under its chartered form its capital was increased to £250,000. Its leading charter members were Wm. Molson, Hon. John Molson, Thos. Molson, Hon. Geo. Moffatt, J. Ogilvy Moffatt, Geo. Moffatt, Hon. Samuel Gerrard, Hon. James Ferrier, Wm. Dow, and John Thomson. Its head office remained at Montreal. The Zimmerman Bank, with a debenture capital of £25,000, was authorized in its chartered form to increase its capital to £250,000, and its chief place of business was transferred from Clifton to Elgin. Its charter members were



Samuel Zimmerman, John Hillyard Cameron, Luther H. Holton, Joseph A. Woodruff, J. Oswald, John L. Ranney, and Richard Woodruff. The Niagara District Bank, which as a free bank had a debenture capital of £50,000, was reconstructed, but took over and continued the free bank of that name, retaining its head office at St. Catharines. Its new capital was extended to £250,000, and its chief charter members were Hon. James Morris, Hon. John Ross, Hon. John Sandfield McDonald, Hon. Samuel Hamilton, H. Killaly, Hon. Wm. Hamilton Merritt, Thos. Clarke Street, J. P. Merritt, Thos. R. Merritt, and Nehemiah Merritt.

In 1855 Lewis E. Rose, A. Kilborne and others of Stanstead and neighbourhood once more sought to obtain a charter for a bank in the Eastern Townships, to be known as the St. Francis Bank. An examination of the bill for chartering this bank, as first presented to the Legislature, shows that it embodied astonishingly few safeguards for either noteholders or the investing public. Indeed it certainly lent considerable colour to the suspicions of a few years later, that it was designed to permit the parties controlling it to enjoy an absolutely free hand, as far as Government control and public guarantees were concerned. The total capital of the bank was to be £250,000, but it was authorized to begin business when £10,000 had been paid in. Yet there was nothing in the bill to guarantee that even that payment was in cash and not in credit. Though the bill specified that the total liabilities of the bank were to be limited to three times the paid up capital, yet no limit was put upon the note issue, which might thus be extended to nearly three times the capital paid in. As to returns to the Government, nothing more specific was prescribed than an annual statement of the affairs of the bank showing its general standing, but without any specified details. Five years were to be allowed within which to obtain the authorized capital of the bank, but if at the end of that period all the capital had not been secured, then the capital limit for the future was to be fixed at whatever had been paid in. But this might be anything above £10,000. In view of the criticism to which this bank was afterwards subjected these facts are somewhat interesting.

The bill however was not allowed to pass in that form. As amended in committee the minimum amount to be paid in before the bank began business was raised to £20,000, and in

the act as passed, to £25,000. In deference to the wishes of the promoters, when they found they would have to obtain their authorized capital within five years, the total capital was reduced from £250,000 to £100,000, the smallest amount for which any bank was then chartered. In other respects the act was made to conform to the usual requirements of ordinary bank charters.

During the same session, and a short time after the St. Francis Bank bill was presented, a bill was brought before the Legislature for the incorporation of another bank in the Eastern Townships, under the title of The Eastern Townships' Bank, with its head quarters at Sherbrooke. Now, the bill presented for this bank was, with a few unimportant verbal changes, an exact copy of that of the St. Francis bank. Yet the persons connected with the Eastern Townships' Bank seem to have been of a better financial standing than those connected with its prototype. Among the charter members of the new bank was Mr. Alex. T. Galt, shortly after this to succeed Mr. Cayley as Minister of Finance. Needless to say, this bill also was entirely recast and the Eastern Townships' Bank went into operation under the usual conditions of other chartered banks of that period.

The last of the new banks chartered during the session of 1854-5 was the Bank of Toronto, which merits some special attention as its origin was somewhat unique. On October 27th, 1854, a petition was presented to the Legislature from Wm. Gamble and others, millowners, etc., praying for an act of incorporation under the name of The Millers, Merchants, and Farmers Bank of Canada West. But when Mr. Gamble, who was a member of the Legislature, presented his bill on the 10th of November, it was under the title "An Act to Incorporate The Millers' Association of Canada West." Among the charter members of this association were Wm. Gamble, Wm. P. Howland, J. Brunskill, Geo. P. Dickson, W. R. Wadsworth, J. B. Warren, A. Reesor, D. McDougall, J. W. Gamble, E. Perry, J. Proudfoot, Gooderham and Worts, Thos. R. Merritt, Thos. N. Gibbs, G. Wright, G. McKay, Thos. Short, and A. Farewell. This association was to consist of millowners, mill holders, and operative millers, and was intended primarily to conduct an agency business in flour, grain, and other produce on behalf of the shareholders.

Thus, the association would undertake to obtain for the members all possible information affecting their business, to negotiate sales and obtain advances upon flour, grain, and other produce and quite generally facilitate and assist its members as millers and produce dealers in the transaction of their business. In pursuance of these objects the directors of the Millers Association were to be empowered by the act to establish two more or less independent organizations. The one was a mutual insurance association entirely composed of *bona fide* shareholders of the general association, and the other was a banking company.

The formation of the banking company was provided for under the following conditions. As soon as £50,000 should be subscribed by members of the association, the board of directors were empowered to make a by-law providing for the establishment of a bank, to be known as the Produce Bank of Western Canada. The general public, as well as the members of the association, might be shareholders in the bank, which was to be a separate corporation with a capital of £500,000 in shares of £25 each. The only special feature in the proposed charter of the bank was to the effect that warehouse receipts for flour, wheat, goods, wares and merchandise in store, designated in Britain as 'warrants,' should be regarded as negotiable securities, and might be taken as collateral security for discounts. However, the bill did not pass the Legislature in the complex shape in which it was presented. The portion relating to the bank was taken out and organized into a regular bill for the establishment of an ordinary chartered bank, with all the usual conditions. The new bank thus chartered made its appearance in the financial world as the Bank of Toronto. The charter members of the institution were those whose names have just been given in connection with the Millers Association, of which it was the outcome.

The only banking project brought before the Legislature during this session which failed to obtain a charter, was the Bank of Brantford, for which Mr. P. A. Wilkes and others of that town presented a petition. Though unsuccessful the following session also, they finally attained their object during the session of 1857.

In 1856 an act was passed consolidating the several acts incorporating and relating to the Bank of Montreal, thus em-

bracing the whole charter of the bank in one act. Similar acts were passed for the Bank of Upper Canada, and the Commercial Bank. In the case of the latter the official title was changed from the Commercial Bank of the Midland District to the Commercial Bank of Canada.

During this session two new banks were chartered, the Union Bank, and the Colonial Bank. The Union Bank had its head quarters in Hamilton, and its chief charter members were the following, Hon. Sir A. N. McNab, Hon. W. Dickson, Hon. J. C. Morrison, A. Rankin, J. T. Gilkeson, H. B. Willson, S. B. Freeman, R. P. Street, G. W. Burton, H. C. Baker, D. C. Gunn, J. D. MacKay, J. F. Moore, N. Merritt, T. Stinson, G. Rykert, of Canada, and the Hon. Silas M. Holmes, E. B. Ward, and U. T. Howe of Detroit, H. M. Benedict of New York, and W. M. Shaw of St. Germain en Laye, in France. Its authorized capital was £1,000,000, £50,000 to be paid in before beginning business, and £450,000 to be subscribed and paid in within five years. Books of subscription might be opened, and shares issued and transferred and dividends paid in Britain, the United States, and France. Otherwise the conditions were practically the same as those of the other banks of the period.

The Colonial Bank was an institution established in Toronto, whose checkered career and somewhat tragic collapse were to have considerable influence upon the future of Canadian banking. It sought incorporation under the name of the British Bank of Canada, but as that would have tended to confusion with the Bank of British North America, the name was changed to that of the Colonial Bank of Canada. The parties whose names appear in the charter were John Major, J. R. Boyd, Amos Bostwick, and several others. Its authorized capital was £500,000, £25,000 to be paid in before the bank began business. Its subsequent history belongs to the next financial crisis.

Two other banks sought charters, but for the present failed to obtain them. One was the Bank of Western Canada, petitioned for by Wm. Fitch and others of the counties of Welland, Lincoln, and Haldimand. The other was the Bank of the County of Elgin, for which D. J. Hughes and others of that county had presented a petition. As usual during this period, importunity had its reward, for both banks were afterwards chartered.

In the meantime certain important events were taking place which greatly affected Canadian prosperity and the money market. From 1853 to 1856 the Crimean war was in progress, and though this had the effect of temporarily drying up the fountain of British capital, upon which the railroad expansion was dependent, yet in the agricultural line Canada, true to her traditions, greatly prospered through the combination of bountiful harvests and war prices. The result was that by 1856 the farmers of Canada were in possession of large sums of money, which they usually held stored away at home. Thus, while the country was full of money and bank capital was at a premium, trade and industry were greatly crippled for lack of currency and bank accommodation.

While the war greatly stimulated the trade in grain, it tended to lessen the demand for timber, much to the distress of Lower Canada and the consequent curtailment of bank accommodation in that quarter. Such was the condition of affairs in the beginning of 1855 when every one was awaiting the ratification of the reciprocity treaty with the United States. Exchange was against Canada on account of the large imports due to railroad enterprise. With heavy outstanding note issues and high rates of exchange, the banks were afraid to discount freely, but were eagerly desirous of obtaining new capital, whether through increased sale of bank stock, or through time deposits on the part of the public, for which as high as four per cent. was offered. At this time money easily obtained eight per cent. on mortgages and more on bills.

The peculiarity and uncertainty of the money situation lay to a considerable extent, as we have seen, in the very large amount of bank notes stored away in the homes of the farming community. This money being idle could not supply the needs of trade and industry, yet the banks were afraid to discount freely, even to the extent of their means, with so large a note issue hanging over them and exchange against the country. The situation was somewhat relieved in a rather peculiar manner. The increasing hoards of the farmers afforded a natural attraction for house-breakers and highwaymen. In consequence, the number of burglaries and highway robberies throughout the prosperous farming districts began to increase at an alarming rate. The result was that the farmers, for the protection of their lives if not of their property, found it neces-

sary to deposit their accumulations in the nearest banks. This had the effect of increasing the number of branches established by the leading banks, and, as we have seen, caused several new charters to be sought for banks in the rural districts. Thus the hoarding habits of the Canadian farmers were broken up, and the agricultural community was henceforth brought into intimate relationship with the banks, as in the more prosperous and enterprising sections of the United States.

Another outcome of the prosperity of the farming community of western Canada, was the increasing demand for agricultural land. The movement began in a genuine desire to obtain more land for cultivation, and was usually accompanied by the ability to make large payments upon the new purchases. But it had not gone far before the temptation to land speculation became very strong. In a short time the demand for land for cultivation was swallowed up in the unsound demand for land for purely speculative purposes. Even the farmers themselves were carried away by this new movement, and greatly enlarged their holdings at extravagant values. At the same time the greater part of the purchase price remained to be paid out of future crops, calculated on the abnormal basis of war prices. The milling business was also greatly stimulated throughout western Canada, and speculation in grain and flour was a natural phase of the economic inflation.

Though the banks were not very directly involved in the land purchases of the farmers, several of them were found to have been intimately connected with the operations of speculators in land and agricultural produce, who depended upon the farmers, so that the unwise venturings of many farmers reacted upon the banks. The banks were accused also, in debates upon their charters, of being too directly connected with trade, it being represented that they were the real purchasers in many large transactions in grain and timber. This, however, was denied on the part of the banks, and there the matter rested.

The circulation of Canadian bank notes in the neighbouring States continued to be a disturbing factor in the country's currency and exchange. The banks were all alike anxious to maintain their note issue in the United States on account of the profit from it, as, under normal conditions, the notes were slow in returning; indeed quite a number of them never returned. Just what proportion disappeared in the western

migrations, could not be determined. But, taking a typical example, we find in the annual report of the City Bank for 1856, a statement to the effect that the unredeemed old note issue of the bank, of seven years standing and upwards, amounted to \$39,200, of which \$28,000 had been written off, representing a clear gain to the bank. But when any special demand for specie arose in the adjoining States, Canadian bank notes, along with others, were collected and returned for redemption, much to the disgust, and occasionally to the embarrassment of the Canadian banks. Several of them were still inclined to resent the return of notes for redemption as an evidence of international animosity. Some bank managers even went so far as to advocate the adoption of an inferior legal tender in order to render the process of redemption unprofitable, hoping, on the basis of Gresham's Law, to have Canadian notes continue in circulation in the neighbouring States as the cheapest form of money.

In the meantime, however, land speculation in the western States tended to check the indefinite circulation of Canadian notes, since the Government required the original payment for state lands to be made in specie, and Canadian bank notes among others were used to procure the necessary specie.

In 1855 a bill was introduced to compel the chartered banks to accept their own notes at par, in payment of debts due them. Hitherto bank notes were accepted at par only at the places appointed for their redemption, and the banks opposed the new measure on the ground that it would be impossible for them to redeem their notes at every branch. This, however, was a mere evasion of the issue, since the banks were not being asked to redeem their notes at their branches. In discounting paper, and in making other payments, the banks issued their notes at par at their various branches, and it was only fair, now that the business of the country had so greatly increased and the banks had established so many new branches, that they should receive their own notes on the same basis as they pay them out. The bill simply stated that "It is inconvenient and unjust that banks should, under any pretence, refuse to take their own notes in payment of debts due to them, or charge a premium for receiving them." It simply provided that every bank issuing its notes payable to bearer

on demand, should receive such notes at par, in payment of any debt due either at the head office, or any of the branches, and that such notes should be a legal tender to the bank in payment of any such debt. Nevertheless the banking influence was sufficient to prevent the passing of this bill, and for some years to come the Canadian public were compelled to use a paper currency subject to discount throughout the greater part of the country.

In 1857 the tide of prosperity began to turn, though the flood of new bank charters was not materially abated. The staple industries of the country simply returned from an inflated to a normal basis of values, yet the reaction was sufficient to puncture the bubble of speculation, and cause a ruinous collapse of unsound investments. But the details of this period of crisis, and of the severe trials to which both the older and newer financial institutions of the country were subjected must be left for another paper.

ADAM SHORTT.



## THE CONDITION OF BRITISH INDUSTRY.

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BY A. W. FLUX.

“JUDGED by all available tests, both the total wealth and the diffused well-being of the country are greater than they have ever been. We are not only rich and prosperous in appearance, but also, I believe, in reality. I can find no evidence that we are “living on our capital,” though in some respects we may be investing it badly.”

These are words used by Mr. Balfour in his famous pamphlet, not the expression of the convictions of his political opponents. Mr. Chamberlain, too, in his speech at Cardiff, used the following words:—

“I am not going to say to you, any more than I should say of the country as a whole, that you have not been prosperous, that you are not prosperous still. In fact, the growth of Cardiff has been phenomenal.”

In the face of such statements by the two great leaders of the English people in the present agitation for fiscal change, the elaborate demonstrations that Britain's trade is ruined, her industries stagnating, her prosperity a memory of the past, which form so large a part of many speeches, articles, pamphlets, are, to say the least, a little surprising. It will, at any rate, be clear that, in endeavouring to show that the passages quoted were not introduced merely, or mainly, for rhetorical effect, I shall not be imagined to be disposing of the case for inter-Imperial reciprocity in trade. The arguments which must be offered in support of changes in this direction need not depend, for their validity, on a mistaken belief that the dominant position once held by Britain in the commerce of the world is practically lost. For years, in the face of obvious facts, the pessimists have proclaimed the decadence of England. Perhaps the majority of those, who follow the controversy over British fiscal policy, are imposed upon by the elaborate array of figures, adduced to show, in particular, the

decay, or the impending decay, of Britain's foreign trade. Let us consider a few of the facts, and endeavour to understand how much, and how little, they demonstrate, in relation to the points in question.

A first point may be made in relation to the comparative development of trade in Britain and in other countries. It will hardly be in place to compare the development, over two generations of human life, in countries so differently placed as the United States and England. The opening up of the virgin resources of a continent might well be expected to be the basis of a growth in industry, and in trade, exceeding what was possible in the case of a diminutive island, the resources of which, at the beginning of the period, had already reached an advanced stage of development. Canada will, we hope, grow in population, in wealth, in trade, faster than most other countries, in the immediate future, but the feature of importance may well be the relative advance of Canada, rather than the relative retrogression of other countries. The same facts can be looked at from two points of view, and their interpretation depends not a little on which aspect of them we decide to consider as the more important.

Recognizing, then that the rapid development of the United States, as compared with Great Britain, depends less on trade policy than on the natural conditions of the two territories, a comparison between the trade of England and that of France will afford a better measure of British progress in the past three quarters of a century. The exports of domestic produce, at selected dates, have been as follows:—

Calendar Years.	From France. Million \$.	From United Kingdom. Million \$.
1827 . . . . .	117	*153
1847 . . . . .	204	286
1859 . . . . .	597	924
1890 . . . . .	730	1282
1900 . . . . .	800	†1375
1902 . . . . .	827	†1350

\*An exceptional year. About 25 millions should be added to make it representative of British exports at the period.

†Excluding new ships.

The dates 1827 and 1847 are selected in view of the revision of valuations in the French records in those years, making the official valuation correspond with actual current values. The relative advance will be admitted to be as great, at least, in the case of British trade, as in that of French. The sudden spurt in French exports since 1898 makes the movement appear less favourable for Britain, comparing later years with 1890, but, even with the addition to the French figures for 1900 and 1902 which this spurt has made, the comparison with any of the earlier dates given is quite satisfactory for Britain.

A point of no small importance, brought out by this table, is that France, at any rate, had a large foreign trade, and a tolerably well developed manufacturing industry, at a time when it has become common to declare that England had a practical monopoly of manufacturing for the world at large. Formidable rivalry was not unknown, even in those days, as might readily be shown in greater detail, if required.

The relative progress, too, of the exports of Germany and of the United Kingdom, only shows a decided proportionate advance on the side of Germany in the last four or five years. Not till the year 1900 did the proportion of German exports to those of the United Kingdom exceed the figure reached in 1878. The changes in the mode of preparation of the figures of German trade make comparisons not very exact. In 1880 one change took place, rendering the German returns more complete. In 1889 the Hanse towns were included in the Zollverein, and a consequent change in the basis of the trade returns became operative. In 1897 there was a third change made, bringing into the returns a section of trade not previously included, and thus once again making comparisons fallacious. In view of these facts, the relative progress of the export trade of Britain, so far as the figures reflect that progress, can hardly be called unsatisfactory.

But it must be remembered that the progress of foreign trade is not an exclusive index of prosperity. A growing foreign trade might reflect decay of important native industries. It is claimed by some that the disproportionate increase of imports in the case of the foreign trade of the United Kingdom indicates an unsatisfactory state of British industry. To

the writer it appears entirely capable of a precisely opposite interpretation. One of the features which is sometimes selected for comment in this connection is the comparatively small growth in imports of raw materials, and the large growth in imports of manufactured goods. This feature of the returns deserves most careful examination.

First, let us consider some comparisons with thirty years back, bearing on the supplies of raw materials for British industry. Take first the cotton industry. The consumption of raw cotton in the United Kingdom in 1872 was 1175 million pounds, and this had grown to 1637 million pounds in 1902. The decrease in value of the exports of yarns and piece goods from 389 to 352 million dollars gives the impression of a declining industry. But a declining industry does not require 40 per cent. more of raw material, and that of a better quality, adapted to the production of superior goods. In 1872, the imports of raw cotton, after deducting re-exports, cost 217 million dollars. In 1902, the cost of the greatly increased quantity was but 169 million dollars. This is one of the secrets of a decreased value of imported raw material. It certainly does not mean a stinted supply. Moreover, in 1872, the consumption included a large proportion of the short stapled East Indian cotton. This had almost vanished from the table showing the consumption of 1902, while the far more valuable Egyptian variety bulks largely in the returns. This fact alone would justify the assertion made above as to the improved quality of the goods produced, if that were not quite well established independently. It may be added that the export of cotton yarns in 1902 was 45 million lbs., or over 20 per cent., less than in 1872. The value of piece-goods and other manufactures exported had increased in the interval. The greater proportion of finished goods in the export trade connected with this great industry is worthy of special note, in view of rash statements that British exports tend to be, in increasing degree, of crude commodities. The home consumption has unquestionably increased in a substantial degree, while the export of the product of the industry left a balance of 183 million dollars over the cost of the raw material in 1902, as against a corresponding figure of 172 million dollars in 1872. These figures for 1902 represent a year which is reported on as unfavourable to the industry. The numbers

employed in England in this industry, not including dealers, have increased by about 15 per cent. only, or more slowly than the general increase of the population, in the thirty years' interval. Between 1891 and 1901 the numbers even diminished, but this was entirely due to the falling off in those under 20 years of age, indeed, to the falling off in those under 14 years of age. This decrease is attributable to legislation affecting the employment of young children in factories, not to decay of the industry. The employees over 20 years of age increased in numbers by  $5\frac{1}{2}$  per cent. between 1891 and 1901, and a greater increase of males than of females is shown, again a feature reflecting favourably on the capacity of the industry to provide support for British workers. Increased consumption of material, superior quality of material and of products, greater efficiency of labour, increased supplies of goods for home consumption, combined with an enlarged surplus of value of products exported over that of the material imported,—can these be signs of decay? It is true that, thirty years ago, half the cotton grown was consumed in Great Britain, while now less than 30 per cent. of the world's product suffices for the needs of her industry. In place of a consumption in Great Britain exceeding that of the continent of Europe by 50 per cent., the consumption of the continent now exceeds that of Great Britain by 50 per cent. But the needs of the world for cotton fabrics have grown so that even the enlarged output fails to glut the market. The comparative stagnation, for a dozen years past, in the yardage of piece-goods exported from Great Britain indicates that other nations compete more readily than formerly in supplying coarse goods to themselves and to others. This is a situation which must be faced, and the increase in the proportion of the value of lace, and other cotton manufactures, to that of piece goods and yarns exported, indicates a movement in the direction of adjustment to the conditions from which it is impossible to escape.

The woollen industry in England is one which has suffered severely from foreign tariffs. The value of exports of woollen goods, including yarn, which was 214 millions of dollars in 1872, was only 100 millions in 1902. Further, there has been a considerable increase in the quantities of yarn exported, though its value has decreased by 20 per cent. The

quantity of stuffs, as well as the value, has largely diminished. Added to this is the fact that yarns and manufactures of wool were imported to the value of 59 millions of dollars in excess of the re-exports of the same classes of goods in 1902, as compared with 18 millions in 1872. But the consumption of wool in 1872 in Great Britain was 324 million pounds weight, whereas it had risen to 494 million pounds in 1902, each figure being substantially less than that of neighbouring years. The average consumption of the five years 1870-74 was 342 million pounds, and, of the five years ending 1902, 525 million pounds. Whether we compare the quinquennial periods, therefore, or the single years 1872 and 1902, it appears that the consumption of wool has increased over 50 per cent. If the export of goods has been smaller and the import larger, it must follow that the buying power of the people has largely increased. The doubling of the exports of ready-made clothing goes but a small way to account for the disposal of the enlarged supplies. It is estimated that nearly half the weight of the wool consumed is manufactured for home consumption. The extent of the home market is clearly demonstrated as also its great growth in the past thirty years. The increase in raw material consumed, coupled with the decrease in work-people engaged in the manufacture, testifies to the increase in efficiency of the processes of manufacture. The decrease of numbers employed has affected those over twenty years of age only in the last intercensal period, the numbers of these recorded for 1901 being a few hundreds less than for 1891, and an increase of only 5 per cent. on 1871.

Further evidence of the expansion of the home consumption of clothing materials is afforded by the increase of nearly 75 per cent. in those engaged in the tailoring trade between 1871 and 1901. These now exceed the recorded figures for the woollen and worsted industry, having reached, in 1901, a figure not merely greater than that for the manufacturing industry in that year, but greater than the greatest census figures for that industry, which were those of 1891. The masses of the people are clearly requiring an increase of services from the makers of clothing.

A third material of industry of considerable importance is leather. Its supply can best be shown in a brief table, as follows, comparing, as before, 1872 and 1902.

(Thousands, 000's omitted).				
	Quantity.		Value.	
HIDES.	1872. cwts.	1902. cwts.	1872. \$	1902. \$
Imports .. . . .	1,436	948	23,850	11,850
Re-exports .. .	449	290	7,950	3,890
Net imports ..	987	658	15,900	7,960
Exports of domestic ....	48	188	540	1,820
LEATHER.				
Imports .. . .	243	1,199	8,650	39,400
Re-exports .. .	36	145	1,290	6,300
Net Imports ..	207	1,054	7,360	33,100
Exports of domestic ....	139	127	5,930	6,500

The exports of leather boots and shoes represented a million dollars more in 1902 than in 1872, an increase in value of about 12 per cent., the number of pairs increasing by 36 per cent. The export of other leather manufactures and of saddlery and harness together increased from \$3,500,000 to \$5,750,000 in round figures. The domestic supply of hides can hardly have failed to increase largely, in view of the increased production of meat in the United Kingdom, and this is further indicated by the growth in the export of hides. The diminution of the net import of hides by nearly one-third is not, therefore, to be taken as a measure and indication of a decrease in the tanning industry, while the large increase of leather imported reflects a very large expansion in the home market for leather goods.

One more example may be taken to illustrate the point at issue, and we select the iron trade as one to which particular attention may be directed. It seems likely that the make of pig iron in 1903 in the United Kingdom may fall short, not only of that of the United States, but also, and for the first time, of that of Germany. But attention should be given to the fact that the iron producing industry in Great Britain is depending more and more on imported ores. In 1902 the ore

imported was about  $6\frac{1}{2}$  millions of tons, eight times the amount imported thirty years previously, and costing five times as much. The home product was, in quantity, double the import, but, in value, is returned at a smaller figure by 40 per cent. than the ore imported. The production of pig-iron, stated at 8,700,000 tons, though less than the production of the years 1899 and 1900, has only once been exceeded in other than those years. It exceeded the make of pig iron in 1872 by two million tons. This represents a small growth in comparison with that achieved by the United States or by Germany, but the need to import ores in large quantities to maintain even so small a rate of advance in production brings out a fundamental point of contrast with the countries which are taking the lead as iron producers.

Comparing 1902 with 1872, the imports of pig iron have increased from 100,000 to 227,000 tons, and the exports of pig have fallen from 1,331,000 to 1,103,000 tons thus adding to the supplies, available for manufacturing, an amount of 355,000 tons, over and above the increase due to enlargement of production.

The exports of various manufactures of iron and steel were 3,383,000 tons in 1872, and 3,577,000 tons in 1902. Thus the increase in export was only 194,000 tons. The whole of the increase in the home production, and more, was therefore available for home consumption or export in the shape of hardware or cutlery or of ships or machinery. The value of the exports of iron and steel goods, whose weight is given above, was 175 million dollars in 1872, and 142 million dollars in 1902. If, however, we look to the exports of hardware and cutlery, tools and implements, machinery and mill-work, telegraph wire and apparatus, all, in the main, iron and steel goods, we find an increase from \$68,400,000 in value to \$123,300,000. The value of ships of iron and steel, built for foreigners, has also increased largely in the interval. Here again, therefore, the apparent stagnation of a staple industry, as seen from the standpoint of the value of exports of its cruder products, appears not to be confirmed on a closer examination. The production of pig-iron in 1872, when we deduct from it the net export of pig iron, leaves about 5,500,000 tons. Again deducting the exports of manufactures, 3,400,000 tons, with-



out making allowance for the waste in manufacture, we find a net supply for home consumption, and for export in more elaborately manufactured forms, of 2,100,000 tons. A similar calculation for 1902 gives a net supply for these purposes of 4,250,000 tons. This reflects not unfavourably on the growth of important industries in Great Britain. And this doubling of the amount of the material used has been accompanied by a great increase of imports of the cruder forms of iron and steel. The total of imports, after deducting re-exports, which was 225,000 tons in 1872, had reached no less a figure than 1,132,000 tons in 1902. These last figures have attracted great attention. What precedes will show that the importation of these goods has not prevented a marked expansion of home production. It is, further, of no little importance to observe that the proportion of the exports which consists of the more highly valuable goods is much greater than formerly. Sheets, plates, tin-plates, tubes, screws and rivets, etc., and steel goods, represented but one-fifth part in weight, two-fifths in value of the export of 1872. They represent over two-fifths of the weight, and over two-thirds of the value of the export of 1902. The case is parallel with the displacement of cotton yarns by piece-goods and other manufactures in the exports of the products of the cotton industry.

It may be noted, in passing, that, great as the production of iron in the United States has become, it is only in 1901 and 1902 that it has been greater in proportion to the population of the country than the iron production of the United Kingdom. The German output of iron, per head of its population, still lags far behind that of the United Kingdom.

The preceding examination of some of the leading industries of Great Britain shows that, though their raw material may, in some cases, have been reduced in cost, it has been increased in quantity, and increased largely, in the course of the last thirty years. It further indicates that the exported goods are, in not a few cases, more highly elaborated now than formerly, that is to say, that the export trade affords a larger employment to more highly developed skill, at any rate in some departments. The decrease in money value of some exports in some cases, their decrease in quantity, even, in others, are not necessary indications of decrease of industrial activity. It

would be more satisfactory, from some points of view, to find expansion all along the line, but when the British workman is able to clothe himself, for example, more satisfactorily, instead of selling the clothes he needs to procure the more indispensable food, the situation is not one for despair. The examination of the facts, part of which are given above, does distinctly suggest that the comparison here made is a true one.

Let us look at the matter from the point of view of figures in the mass. The recent blue-book, issued by the Board of Trade, contains a number of tables separating manufactured goods from others entering into the foreign commerce of the country. It makes reference to tables published twenty years ago, in which a more elaborate separation was carried out. The writer has attempted to make a classification of the trade of the past five years on the exact lines of the classification of the old report, which, up to the date at which it ends, has been followed in the tables of the new blue-book. The results suggest that some minor modifications of classification have been adopted, without a corresponding adjustment of the older figures. The differences, however, are not of a serious nature, and do not destroy any general teaching of the tables. In one point, namely, the classification of the re-exports of foreign and colonial merchandise, the Board of Trade report affords no help. It appeared to be a quite important point, and the work of classification proved worth the trouble. The results, converted into American currency, are given in the following table:—

	Imports, less Re-exports.		Domestic Exports.	
	Million \$.		Million \$.	
	1872.	1902.	1872.	1902.
Manufactured goods.	156.5	452.9	927.7	*1,009.8
Articles partly manu- factured. . . . .	112.6	216.6	210.4	126.9
Raw materials. . . .	542.6	513.7	67.4	158.4
Articles of food and drink, etc. . . . .	630.6	1,068.0	41.5	84.2
Total . . . . .	1,442.3	2,251.2	1,247.0	1,379.3

\* Of which ships, 28.6.

This table appears, at first sight, to bear out the contention that British exports are increasingly of raw materials, and her imports increasingly of manufactured goods. The value of raw materials imported shows a decrease. But we have seen that the quantities of material available to support leading industries have grown. The supplies of the essentials for the maintenance of industry have been secured in adequate amounts, and the fact that they have cost less may be counted as an advantage.

Next, turning to the articles partly manufactured, we find that they consist chiefly of three groups of commodities. Yarns (including tow of flax and hemp), unwrought metals, and sawn timber. The crude metals account for 32 millions, the timber for 46 millions and the yarns for 11 millions of the increase in imports under this head, or, in all, 89 millions of the 104 of increase shown. Among the articles classed as manufactured, too, are included some important materials of industry. Thus, leather, as shown above, accounts for 33 millions of the total in 1902, and only a little over 7 millions in 1872. Paper and millboard account for 19 millions in 1902, less than 5 millions in 1872, and this does not include printed papers. Besides such obvious materials for industrial use, not a little of the other goods, classed as manufactured, forms the material of further elaborative industry in the British Islands. On the side of exports, the decrease in the partly manufactured articles is worth noting. When the total of the first two items is given by itself, a fact of considerable importance is hidden. Some notice has already been given to this in connection with the iron and steel industry.

The increased export of raw material is mainly due to the increase of coal exported. This one item accounts for 50 millions of the total in 1872, and for 134 millions in 1902. Under the head of food, it may be observed that the chief increases in exports are of fish and spirits, each accounting for about 12 million dollars of increase, or, in these two items alone, 60 per cent. of the entire increase.

The separation of ships from the aggregate figures is rendered necessary because of the lack of returns relating to this item until 1899. If we evaluate the ships built for foreigners in 1872 at the rate of \$150 per ton for steamers, and one-half

of that value for sailing ships, the corresponding item for that year will stand at about 12 million dollars. Regarding ship-building as an important and expanding British industry, it seems desirable not to overlook its contribution to the growth in British exports. This item is certainly more than double as great in 1902 as in 1872.

The great increase in manufactured goods imported into the British Isles is often supposed to mean a decrease of employment for labour. Some instructive data bearing on this point are to be found in the returns of the census. The following figures relate to England and Wales alone, but it is precisely in England and Wales that the problem of the unemployed is likely to be serious if it be so in any part of the United Kingdom.

Period of Years.	Excess of Births over Deaths.	Actual Increase of Population.	Deducted net emi- gration.
1861-71 . . . . .	2,725,010	2,646,042	78,968
1871-81 . . . . .	3,426,480	3,262,173	164,307
1881-91 . . . . .	3,629,474	3,028,086	601,388
1891-1901 . . . . .	3,593,553	3,523,550	70,003

The pressure of hard times, difficulty in finding employment, and like causes, led to a growing emigration from England, as shown by the figures, so that the actual increase of population was less from 1881 to 1891 than in the ten preceding years. Is it not strange that, if the dumping of foreign manufactures in Britain is cause of industrial ruin, the tide should have turned just when that process became most emphatic? For there is a turn of the tide indicated, inasmuch as the army in South Africa, at the date of the 1901 census, more than accounts for the 70,000 excess of departures over arrivals in the decade preceding 1901. More than that, if we include the growth of foreign-born population, there is still not indicated a net efflux of British born as great as the South African army, which was only temporarily absent from Britain. The British practice does not include these absentees in the enumeration.

The British workman had learned of the attractions of other lands, as the figures for 1881-91, unquestionably demon-

strate. He had increasing numbers of friends and relatives who had preceded him, making it easier for him to contemplate the breaking of home ties. Yet he found it better to stay at home. Can this showing be consistent with a destruction of the opportunities for finding work, owing to the importation of foreign manufactured goods?

It was noted that some of the leading industries, though handling enlarged quantities of material, needed fewer hands to perform the work, or a smaller proportion of the population, if not actually fewer. What has become of the rest, is the question constantly urged. The careful study of the census returns affords one means of finding the answer to this question. Attention has already been called to the increase of numbers in the tailoring trade, and other occupations connected with dress also show considerable gains. The furniture trades have added 60 per cent. to the numbers employed since thirty years ago. The employees in printing and book-binding have increased to two-and-one-third times the numbers of 1871. Those engaged in machine-making and shipbuilding have at least doubled. The precise figure of increase is difficult to state, owing to a change in the classification of trades in the last census. Coal miners have more than doubled in numbers, earthenware and glass manufacture provide employment for more than 40 per cent. more than in 1871, the building trades find work for over 60 per cent. more, and in minor trades the enumeration of increases would be tedious. In the cases cited the development has been maintained from decade to decade, and the comparison with data for 1891 would be as satisfactory as that actually given. Is not the evidence of change in the occupations followed a proof of life in the industrial organism? Loss at any one point is regrettable, but it is not difficult to trace the counterbalancing gains at other points. The process of change is continuous. By no means the whole of it can be represented by the idea that a workman loses his job in one trade and must seek another in an unfamiliar occupation. A great part of the change consists in the drafting of young men, entering on life, into the trades which are expanding rather than into those which are stationary or declining in their labour requirements. The degree of hardship entailed by the one process differs most markedly from that consequent on the other.

The simple fact of a check in the emigration movement, in spite of a large growth of population, has been adduced above as a proof that the welfare of the working classes has increased in recent years in England. Other evidences have, incidentally, been offered in the course of this article. Among them may be noted the increase in variety of consumption of food. The imports of grain of various kinds, and of flour and meal, have increased in quantity very largely indeed since thirty years ago. The fall in prices, however, has enabled this largely increased quantity to be secured at a comparatively slight increase in cost. The net import cost 259 millions of dollars in 1872, and had only risen to 321 millions in 1902. Reference to a preceding table will show that, from 40 per cent. of the total value of articles of food and drink (the heading includes spirits and tobacco), the grain and flour has fallen to 30 per cent. of the whole group. The home production of meat has not decreased in quantity, but an import valued at 47 million dollars has expanded to one of 230 millions of dollars in this item. The increased import of dairy products is well known, and Canada's share in them is one gratifying to Canadians. What is not so well known is that the import of fruits and nuts, which stood at 12½ millions of dollars (imports less re-exports here, as in other places), in 1872, has had an addition of no less than 30 millions of dollars in the thirty years which have since elapsed. Many varieties of fruit which were formerly a rare indulgence to the masses, or even to fairly well-to-do work-people, are now within the reach of the bulk of the population. The goods have been cheapened, and the power to purchase these small luxuries has grown at the same time.

It may, with fair confidence, be maintained that Great Britain has a purchasing power abroad which enables her to supply herself abundantly with food and the materials of industry, and that she can further afford to buy foreign manufactures in large quantities without exhausting her power of payment. But, it is said, see how much the imports exceed the exports! An excess of less than 200 million dollars in 1872 has been replaced by one of 872 millions in 1902. How can payment be made? Is Britain not living on her capital? The answer is, No! Mr. Balfour's confidence on this head is

justified. The first reason for this is found in the fact that the work done by British capital and labour in connection with foreign trade is not all done within the British islands. The practice of the world in valuing imports and exports is not uniform. In the main, the goods as exports are valued as at the place of shipment from the exporting country, the imports as at the place of receipt in the importing country. Certainly the latter is the valuation for which payment has to be made, the former the valuation for which payment can be claimed. If a country effects the transport by the use of its own labour and capital, the value of the services thus rendered helps to pay for the goods received, but if other nations do the carrying work, part of the value which the goods have as imports must be due to the carriers. Had all the nations made the valuation of goods in their foreign trade as stated above, the excess of the value of the world's imports over that of the exports would be greater than actually shown in the returns. In 1901 it amounted to 1100 millions of dollars, which was below the usual figure. According to data gathered by the eminent German statistician, Neumann-Spallart, it would appear that, thirty years ago, the corresponding difference was between 800 and 900 millions of dollars. Let us take 850 millions to represent it. As compared with the 1100 given in the British blue-book for 1901, it certainly stands high enough, in view of the fact that the value of the trade affected has increased by, roughly, 75 per cent. in the interval. If we deduct from these figures the expenditures in foreign ports, the remainder represents the return to the countries owning the ships, and whose citizens compose the crews engaged in ocean transport. The figures relating to British and foreign shipping, whether we take the record of ownership, or that of the movements in all the chief ports of the world, indicate that about one-half the ocean carrying trade is done by British shipping. After making deductions as above, and allowing for the proportion of shipping carrying the British flag which is owned in the colonies, the estimate of the blue-book is that something like 435 million dollars represent the British claim on the 1100 millions referred to above in 1901, Other modes of approaching the problem give a result differing but little from this figure. What proportion of the 850

millions of transportation costs of thirty years ago should be credited to Great Britain is difficult to estimate, as records on which to base an estimate are less complete than for later years. The tonnage of British ships has increased by about 75 per cent. in the interval, but the earnings per ton are a good deal less. If we take, as a figure to afford guidance, rather than as a definite result, the same proportion of the 850 millions of dollars that seems to apply to the figure of later date, the shipping of Great Britain would have earned about 340 millions of dollars per annum in the early seventies. If this figure be (as is probable enough), in excess of the fact, the increase of the credit available on this account will be greater than the amount of about 100 millions which results from the comparison with the estimate for 1901. If, on the other hand, it be too small, the source of the funds for increasing investments abroad is by so much the more evident.

Some critics refer sneeringly to the earnings of British shipping as a payment, not for productive services, but for the mere work of distribution. As transportation is as important a factor in the creation of values as transformation of materials, there is no justification for depreciatory reference to earnings under this head. Moreover, part of the item is a payment for the depreciation of shipping which represents British capital. If it be good business to supply railway material for renewals on foreign or colonial railroads, why is it not equally good business to receive payments covering the cost of renewals and repairs to merchant vessels owned and worked by Britons?

A word or two may also be given here to a connected point. The bunker coal shipped from British ports in 1872 was about 3 million tons in quantity. In 1902 it was 15 million tons. This was for shipping in the foreign trade only, a designation not including the short voyages between British ports and continental ports on the North Sea. For this coal, as well as for that regularly exported, payment has to be made, and the payment in this case forms part of the earnings of shipping. The growth in steam shipping, and particularly in British steamships, is responsible for a large part of the ordinary coal export from Great Britain. An authority on this subject, Mr. D. A. Thomas, M.P., estimates "that over half of our (i.e. British)



exports of coal are for navigation purposes, and further that more than half the coal exported is for British consumption abroad." If this be so, the aspect of the startling growth in coal exports which commends itself to us is this, that a large part of it is needed to enable British shipping to be efficiently worked. If it be good to export iron and steel goods, which embody large amounts of coal used in their manufacture, is it wholly a matter for regret that British shipping services are made efficient by the use of British coal, obtained at foreign ports of call? The export is not by any means merely an offer, on favourable terms, to foreigners, of an essential in their competition with British industry. It is largely provision for completing the commodity, transportation services, which British ships and British crews are selling in various parts of the world. It may be added that the rate of increase of exports of coal from Great Britain has been fairly steady for nearly half a century. It has not markedly increased in recent years, apart from the matter of bunker coal.

Reference must also be made, in connection with the excess of imports over exports in British trade, to the increase in the income derived from foreign investments. The profits that could be identified as foreign (or colonial) for income-tax purposes exceeded 300 million dollars in 1901-2. Thirty years previously, a figure of 100 million dollars would roundly represent the same item. To this must be added profits not revealed to, or discovered by, the income-tax assessors. Competent authorities estimate that the figure for the later date may be increased by one-half without exceeding the true figure of income from foreign investments. The increase in this item, since thirty years ago, is likely to be in excess of 250 million dollars of annual revenue. Thus part of the growth in the excess of imports is readily accounted for. The field for profitable investment of fresh capital abroad is, too, more fully provided for from other sources than formerly, so that the extent of new investment may be less, proportionately to the funds available in the shape of earnings abroad, than formerly. Thus the current imports may include a larger part of what is currently due than a generation ago, and hence the imports have grown in value faster than the exports, and would

have grown even if exports had decreased, without implying "living on capital."

In this connection, the report of Mr. Wyndham's speech at Workington, on December 1st, contains a curious lament over the increase of British investments abroad, as a cause of depression of British trade. Referring to the growth in the annual interest due, he said "that meant that we had invested abroad during the last nineteen years between seven and eight hundred millions" (*i.e.* of pounds sterling). Now such investments are, in part at any rate, represented by industrial plant exported from Great Britain. It would, therefore, appear that the process of making the investments rather stimulated British exports than the opposite. It is, too, not easy to understand how progressive ruin and destruction of wealth is consistent with the ability to add to investments a sum of 3,500 to 4,000 million dollars in nineteen years. Was not Mr. Balfour completely justified in his confidence that his country has been, and is, rich and prosperous, not merely in appearance, but in reality?

This article has already reached a length which makes it impossible to attempt to treat at all thoroughly one of the most important phases of the movements in British trade, and I shall content myself with a brief reference to it on this occasion. I refer to the comparative growth of British exports to protected and unprotected, to foreign and colonial markets. The comparisons which have been made use of recently have mainly been based on an attempted division of the world into protected markets and unprotected markets. The division is, as admitted in the blue-book already quoted, and from which the currently cited figures are taken, not at all precise. The degree of protection afforded is not, as is pointed out in the report itself, measurable by the height of the tariff. In some cases a low tariff affords effective protection, in others a high tariff fails to protect efficiently.

For an independent purpose, the writer made, some years ago, a comparison of the trade of the United Kingdom with the British possessions, with her chief commercial and industrial rivals, and with the rest of the world. The group of rivals was made to include Germany, Holland, Belgium, France and the United States, that is, practically, the industrially

developed countries. This comparison, continued to date, affords the following.

**BRITISH EXPORTS OF DOMESTIC PRODUCE TO**

Calendar Years.	Rivals. Million \$	Other Foreign. Million \$	British Possessions. Million \$
1870	370	349	252
1872	546	406	295
1874	436	378	352
1879	333	302	297
1883	397	364	406
1886	387	319	365
1890	417	440	425
1894	325	372	353
1900	435	519	459
1902	385	464	530

This is a rather long table, but several purposes are to be served by making it so long. In the first place, it needs to be noted that, if we aim at obtaining a reasonable measure of the advance in British trade since about thirty years ago, comparison of the single years 1872 and 1902 serves our ends very inadequately. This comparison has been used because of a desire to avoid the appearance of shirking awkward facts. So much use has been made of figures for 1872 and 1902, that to use figures for other years, though more to the purpose, can be made to look like evasion of the points at issue. Had 1872 been compared with 1900, years marking a culmination of progress in foreign trade, or had the average of the years 1870-74 been compared with the average of 1898-1902, the record of progress would have been very considerably more favourable than that actually shown, and would have been more truly representative.

It is to be observed that maximum and minimum figures are not attained simultaneously in the three sections of trade represented in the table. The selection of years has been made so as to represent, as fairly as possible, the extremes of expansion and contraction. But this is quite impossible in taking single years both at the beginning and at the end of the table. The period of rapid increase for the first two columns began from 1868, and culminated in 1872. For the

third column it began from 1869 and did not culminate till 1874. Thus, comparison of subsequent years with 1872 in every case results in a perverted view of the relative general progress of the three sections of trade. If we take the lowest level reached after the boom of 1872-3 as a starting point, and compare with 1900, the increase of trade with the "other foreign" group is the remarkable feature. It must be borne in mind that the increase in British exports to colonies, shown in the last figures in the third column as taking place after 1900, is almost wholly due to the enlarged movement of goods to South Africa after the close of the war. While this market may maintain its enlarged capacity for absorption, that is by no means assured as yet, and the figures derived from this exceptional movement cannot justly be used as if they represented a normal movement. The suggestion of the table, and of the complete series of figures, selections from which form the table, is that the expansion of British exports has taken place in the direction of the countries whose industrial capacities are but little developed, relatively speaking. To some extent this means the countries of a moderate protective tariff, or a revenue tariff. In part, too, the designation applies to the Colonial possessions of the British crown. The limitation of markets in other countries may be associated with the stage of manufacturing development reached quite as conclusively as with the degree of protection enjoyed. In so far as the two conditions occur together, it is a matter of indifference which description we employ. What does not appear to be fully demonstrated is that the foreign markets for British produce possess no expansibility. It is not out of place to notice that the sales of goods to her industrial rivals by Great Britain in 1900 exceeded those to the whole of the British Empire outside the United Kingdom in any previous year, and that the sales to "other foreign" countries in 1900 exceeded those to British possessions in any year except 1902. Great as is the trade between the Mother Country and the rest of the Empire, and rapidly as it has grown recently, who can predict whether it will remain permanently the largest of the three sections of trade shown in our table, or will fall again in a few years to the second place, or even, as in 1879, to the third place? Especially, do the figures suggest that the foreign

market, or even the market found in the countries of Britain's industrial rivals themselves, is being lost, far less being rapidly lost as is too often stated?

Little, if anything, has been said above of the comparative commercial development of different nations. The growth of other powerful commercial nations does not at all necessarily mean the decadence of Britain. It did not, therefore, appear to be the matter of greatest importance to examine. Incidentally, some of the results of foreign competition have called for attention, and those such as have the greatest interest. Space would not permit of even attempting to take up other aspects of the problems presented by this growth.

The problem of preferential trade within the British Empire is one of intense interest and of great importance. The writer does not believe that a case exists for a preferential tariff policy on the ground that, otherwise, British trade and commerce must steadily decline, and that the evidences of that decline are already plain. For other reasons the policy in question may be supported, but such support as it draws from a mistaken belief that Great Britain is doomed to ruin without it fails to be convincing. As an imperial policy, calling for mutual sacrifices from the various divisions of the Empire for imperial ends, it may be studied. As a policy urged on the mother country as a means to rescue her from a desperate situation, it is altogether another question. The desperate situation is not proved to exist.

## BANKERS' LIENS ON SECURITIES PLEDGED TO THEM BY BROKERS.

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BY CHARLES M. HOLT, K.C.

IN 1888 consternation was created in the banking world by a decision of the House of Lords <sup>(1)</sup>, which bankers and many lawyers interpreted as meaning that where a broker deposited securities with a bank against advances, the real owner of the securities might dispossess the bank of them, on reimbursing the bank merely to the extent of such sum of money as he, the owner, might owe to his broker, and quite regardless of what the broker might owe the bank. The facts of the case in question were as follows:—

Lord Sheffield gave to Easton, with whom he was associated in a financial adventure, certain certificates of railway stock, with transfers executed in blank, and bonds of foreign companies payable to bearer, for the purpose of obtaining from Mozley, a money dealer in the city of London (whose business was to carry out such transactions on a very large scale in conjunction with some of the principal Joint Stock Banks), an advance of £26,000, by depositing with him those securities. Easton agreed with Mozley that the advance should be made, and that during the continuance of the loan the current market price of the securities should represent a value of 20 per cent. above the loan, and that if it became less, Easton should provide additional security to pay off a portion; and that on default Mozley might realize the securities for the purpose of repaying himself. Easton was aware that Mozley's course of business was to deposit securities with banks to cover his own indebtedness to them, but he did not communicate this fact to Lord Sheffield. Mozley, in accordance with his usual course of dealing, deposited with three banks these securities, together with

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(1) Lord Sheffield v. London Joint Stock Bank, 13 A.C., 333.

securities of other customers, *en bloc*, to cover large loans to himself, amounting to £141,500, £100,000 and £70,000 respectively. The transfers of Lord Sheffield's stock were filled in with the names of nominees of the banks, and duly registered in the books of the railway company, who sent notice of the transfers to Lord Sheffield. Mozley also gave each of the banks a memorandum of deposit, purporting to charge all the securities deposited with his indebtedness, and authorizing the bank to realize them if during the continuance of the loan the securities should not represent a value of 10 per cent. above the loan.

The banks were well aware of the nature of Mozley's business; that he borrowed from them and lent at a higher rate of interest to his customers, who were principally members of the Stock Exchange; that the bulk of the securities deposited were those of his customers, and that they were exchanged from time to time to suit the customer's convenience. On every settling day the banks permitted him to withdraw the securities mentioned in a list sent in by him the previous day on his undertaking to restore securities of equal value by the end of the day, although they frequently allowed him some days' indulgence. In his correspondence with the banks, he referred to lists of securities as coming from his "clients"; to a client pressing him for delivery of particular stock, as it was sold; and to his "customer," or his "borrower" having omitted to exchange securities deposited; and in some cases he deposited at the banks, together with the securities, the deposit notes given him by his own customers.

In May, 1883, Mozley's affairs went into liquidation, and the banks sold some of Lord Sheffield's securities, and claimed to hold the proceeds and the unsold remainder as security for all the debt due to them from Mozley.

Easton and Lord Sheffield then brought an action against the banks, claiming a declaration that the plaintiffs were entitled upon Mozley's liquidation to redeem Lord Sheffield's securities upon payment of the sums due from the plaintiffs to Mozley, and claiming damages for the conversion of those unsold.

At the trial, besides the facts above stated, the evidence disclosed that it was customary for money dealers in Mozley's position to get large advances from certain banks in the city of

London in the same manner as he had done, but, although this was the general course of dealing and practice as between money dealers and those banks, it was held that "there was no such general custom proved as would bind any one dealing with a money dealer, unless it was shown that he had notice of the practice, and he was proved to have dealt with him on the footing of that practice." And it was proved that Lord Sheffield had no knowledge of this practice, nor was he aware, before Mozley's liquidation that his securities had been pledged for more than £26,000.

Upon this state of facts the House of Lords reversing the decision of two lower courts held that the banks were not purchasers for value without notice; that under the circumstances they ought to have enquired into the extent of Mozley's authority; and that, upon payment to the banks of the money advanced by Mozley to Easton with interest, Lord Sheffield was entitled to redeem the securities unsold and to receive the value of those sold.

As has been said this decision disturbed the banking world greatly and its uneasiness was allayed in 1892 only when the House of Lords explained that the decision in *Sheffield's case* had turned entirely on the peculiar circumstances of that case and had laid down no new principle of law whatever.

It was explained that in Lord Sheffield's case the House had been satisfied with the evidence that the banks had such notice and knowledge of the limited title of their pledgor as made it inconsistent with fair mercantile dealing that they should retain Lord Sheffield's securities for any sum beyond the extent of the pledgor's interest, and to claim to do so was therefore a want of good faith. This explanation was given in the *Simmons case* <sup>(2)</sup>. Space will not permit the analyzing of this last case, but the result of these two important English decisions may be said to be that where a banker advances to a broker on the security of negotiable paper, or of paper not negotiable, but of which the banker takes a legal transfer, and such securities are pledged to the bank to secure the whole amount of the broker's indebtedness to the bank, the right of the banker to hold them for that amount, or merely for a lesser amount, or

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(2) A.C., 201.



for no amount at all will depend upon whether the banker at the time of receiving the securities or of making the advance knew or had reason to know that the customer was an agent having *limited authority only*. Mere knowledge that the customer was an agent—*e.g.*, a broker—does not make incumbent on the banker to make further inquiry (\*), and, therefore, such knowledge will not prevent his retaining the securities for the whole amount of the broker's debt to him.

Where stocks are carried for a client by a broker who reserves the right to pledge or deal with them; no question can arise as to the right of a bank to hold such stocks for the full amount of any advance it may have made to such broker upon them. Such a case does not come under the operation of the two decisions commented on above.

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(3) *Bentink v. London J S. Bank* (1893), 2, Ch. 120 at 133-139

## PAPER CURRENCY.

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WHILE the basis of all sound money is gold, it is quite evident that when the gold is coined into money, it becomes inconvenient to carry round in any quantity, as a medium of exchange. It is also evident that if a coin fresh from the mint and containing a certain fixed number of grains of gold is worth a given sum by reason of the market value of the metal which it contains, the same coin, after having circulated for some time and through ordinary wear and tear having lost a certain percentage of its original weight, would not be worth as much as when first issued, by the value of the quantity lost through handling. This quality of being subject to depreciation through wear, as well as the consideration of convenience, renders necessary the employment of some medium of exchange, which, while having the fixity of value and acceptability of gold, would not have the above named defects. That is the function performed by the paper currency issues of the principal countries of the world, our own among the number; and while the notes or bills so issued have no intrinsic value of themselves, they represent a value, being issued against gold or its equivalent, and are therefore what is called "representative money." Notes intended to circulate as money are issued principally by Governments or banks, and in Great Britain, the United States, Germany, France, Canada and almost all other important countries, only by one or both of these.

Paper money may be convertible or inconvertible; that is to say the holder has the option of demanding gold for it, if he so desires if convertible; but he has not this option if the notes are inconvertible. While gold is the basis of value in the principal countries where paper currency is issued, there are notes in circulation which cannot be converted into gold, even in such countries. Thus in the United States there is an issue of notes called "Silver Certificates," which, as their name implies and as is stated on the notes themselves, simply certify that the holder is entitled to one silver dollar (or five or ten, as the case may be), on demand. Now a silver dollar has not the intrinsic value of a gold dollar at the present rate of

coinage, but as no distinction is made between the silver currency and any other of the U. S. Government or National Bank notes, they pass quite as freely, and few people doubt that they will ultimately be redeemed on the same basis as any other Government liability. The United States Government also issues notes reading: "The Government of the United States will pay to the bearer in coin," which leaves the question as to whether redemption will be made in gold or silver rather in doubt; but these also circulate as freely as any other notes. In France, the Bank of France has the option of redeeming its notes in either silver or gold, and though silver is not intrinsically as valuable as gold at the existing French ratio of coinage, no discrimination has been attempted against this dual redemption, as in France, as in the United States, the parity between gold and silver is maintained by restricting the output of coins made from the latter; and while gold may be taken to the mint and turned into money with no charge but that for minting (and even this is only an assaying charge in the U. S.), the same cannot be done in the case of silver.

The principal requisites of a paper currency are that it should be readily received in payment of debts; convertible on demand; and elastic or adapted to the requirements of trade, and the currency which most nearly meets these demands is the most desirable.

In Germany, the principal bank of issue, the Reichsbank, is allowed the right in conjunction with seven other banks. The amount to which this bank can issue under the general restrictions placed upon all the issuing banks, is 460,000,000 Marks; but this limit may be exceeded if necessary, provided cash is held for the excess. This last proviso lends an elastic feature to the issues of the Reichsbank, as, if required, the amount could be largely increased. In England, the Bank of England is the principal bank of issue, and it is allowed to issue notes against Government securities held by the bank, and coin, the former being restricted to £18,175,000 sterling, so that for any excess of issue over this amount, the bank would require to hold coin or bullion. The Bank of England is divided into two departments, the Banking, and the Issue Department, the scope of the latter being confined to the supervision of issuing and redeeming the Bank's circulating notes. No note for less than five pounds is issued by the bank.

In the United States the National Banks are permitted to issue notes intended to circulate as money upon depositing with the Treasury Department at Washington, Government bonds for the amount of notes required. The notes so issued are then guaranteed by the Government, which, of course, holds security in the shape of the deposited bonds. This restriction in the amount to an equivalent amount of bonds has a tendency to interfere with the National Bank issues, as, owing to the low rate of interest obtainable on the bonds, the banks are inclined to restrict their issues.

The Bank of France, the sole bank of issue in France,—as it is closely allied to the Government and is under Government supervision—has the power to issue circulating notes to a practically unlimited extent, as, if it becomes apparent that the existing limit is being approached by the bank's issues, the Government authorizes an increased issue, sufficient to cover any probable excess over the then existing limit. The notes are not specially secured, but the bank holds a large reserve of silver and gold, and they are redeemable on demand.

In Canada, the note issues with which the public is most familiar are those of the Chartered Banks, which are allowed to issue notes to the extent of their paid up capital, the notes being a first lien on the bank's assets. The Government of Canada also issues notes, but for either small or large amounts (\$1-2-4-50-100-500-1,000), the smaller denominations of \$5 and its multiple being issued by the banks. In both Germany and Canada the daily redemption of notes by the banks at the demand of each other, tends to restrict the amount of notes in circulation to the requirements of trade and to prevent inflation, while aiding in the elasticity of the volume, as the notes are again paid out by the redeeming banks as they are called for. The extent to which notes can be issued is limited in a country where the banking system is highly developed, because of the use of cheques as media of settlement of balances. These constitute a demand on the bank on which they are drawn the same as if the bearer held one of the bank's own bills, always provided they are drawn against balances due by the bank to the drawer of the cheque, who thereby transfers his claim to a third party. This is readily recognized when it is borne in mind that a bank may either discharge its indebtedness to the extent of the amount of the cheque by giving in

exchange therefor its circulating notes, or by accepting the cheque, in which case it may be deposited in another bank or passed on to some other person, who then holds a claim against the accepting bank the same as if he were in possession of the bank's notes for the amount, which claim he can as readily realize upon, as long as the bank is solvent. But in case of insolvency, the holder of bank notes possesses a preferred claim as compared with the holder of a marked cheque because Canadian bills are a first charge on a bank's assets, and even in the case of the suspension of any bank its bills would circulate with as much freedom as before, for under the present system it is practically certain that the bills of any bank will be paid in full whether its assets are sufficient for the purpose or not, as the five per cent. redemption fund exacted from each of the banks is not alone applicable to the bank whose notes it guarantees, but the whole fund may be availed of to pay the bills of any failed bank should it require to be so used, and there is, in addition, the double liability of shareholders.

Paper currency has not arrived at its present state of efficiency and effectiveness without having passed through many vicissitudes, the study and consideration of which by legislators and financiers resulting in the present satisfactory and effective currency laws in all the principal countries of the world, and it is our boast that we consider, and with reason, that our own are inferior to none. While Canada, with most other countries, has not escaped entirely from confusion, distrust, and loss to holders of notes supposed to represent a given value, perhaps no country in the world has gone through any more severe experiences, with regard to its paper currency, than the United States. With its Continental Currency; its Greenbacks and its bank bills issued by some of the weaker banks previous to the development of its National Banking System, the Republic has passed through many trying and disquieting periods, with their accompanying evil consequences. It is a well known fact that the persons who suffer most through a depreciated currency are those who are least able to bear the burden, and the study of the conditions accompanying the depreciation of a country's circulating medium reveals the fact that the wage earners are the ones on whom the conditions bear most heavily, as their wages, do not rise in anything like the same proportion as the price of commodities, and

they may have to pay double the amount or even more in the depreciated currency to obtain the same amount of goods, while their salaries remain practically stationary, the law requiring them to accept payment in the depreciated medium, as in almost every instance the Government has decreed that it shall be a legal tender, except in one or two specific cases (such as the payment of revenue), which are of little or no advantage to the wage earner. The causes which have led to a depreciation of a currency are inability to convert it into specie and distrust as to its real value.

When people find that an inferior medium of exchange is by law put upon the same footing as one which is intrinsically of more value, they naturally seek to make the inferior accomplish what otherwise would require the superior to perform. This has given rise to the natural law of selection known as "Gresham's Law" propounded by Sir Thomas Gresham, which is, that bad or inferior money will replace or drive out good. Thus, if a piece of paper marked as being worth a dollar is found to perform the same functions as a gold or silver dollar, the paper will be found to practically monopolize all settlements requiring a medium of exchange to the exclusion of the metallic currency, and as the paper so current is not accepted by foreign nations in settlement of balances in their favour, while the metallic money is so accepted, the latter will be exported and the former remain for internal trade uses. Again, if by law a debtor can compel a creditor to accept payment in a currency which the Government has declared shall be a legal tender between individuals, even though such currency may have depreciated as compared with metallic currency, the debtor is not at all likely to discharge his indebtedness in the more valuable medium, but will hold and hoard, or sell at a premium, any of the latter he can obtain, while using the former to pay any claims against him. This has been proven again and again in the financial history of all nations, but there still remain advocates of a "Free Coinage" or "Free Issue" system who claim that all that is essential to the putting into circulation of sufficient money to relieve any financial stringency which may arise, is that the Government should print the notes or coin the silver and issue it. But the Government can no more create money than it can create a railroad without paying for it, and anything purporting to be

money, whether issued by a Government, a corporation, or a private individual, which cannot stand the test of being converted on demand without loss to the holder, into that which is accepted without question wherever it is tendered in payment of commodities of like value, is bound to depreciate and be looked upon with distrust by the people. This fact is now universally recognized, and financiers everywhere note with satisfaction that the free coinage mania is about extinct in the United States, which plays an important role in the financial markets of the world.

Convertibility, then, is the keystone of the arch—the test of value of a paper currency—and as long as convertibility on demand is a reality there can be no depreciation and no discrimination between convertible paper and that into which it can be converted, the mere fact of the holder being in a position to demand gold for paper money rendering it improbable that he will make such a demand, as there would be little or no object in sacrificing convenience for the mere satisfaction of having metallic money in his possession. It is therefore a comparatively rare occurrence for a holder of notes to demand gold for them as long as he is convinced this could be done if desired. But the moment his faith in that belief is shaken so soon will he want to place himself beyond the possibility of doubt by obtaining specie for his paper currency. This is a prominent feature of a run on a bank and illustrates the necessity of banks being prepared for such contingencies by keeping in their vaults an adequate supply of metallic money, and having a good proportion of their assets in immediately realizable shape, as, if a bank were forced to refuse to pay its notes in gold, panic would probably follow among the holders and the bank be compelled to suspend; while the prompt payment of its notes and other liabilities in gold or legal tender does more to allay distrust and re-establish confidence than anything else. There are numerous cases of suspensions on record which can be directly traceable to inability on the part of the bank to realize quickly on assets which, while of excellent quality and more than sufficient to pay all claims likely to be presented within a reasonable time, were yet not immediately available, and therefore of little use when most required.

*Royal Bank of Canada.*

GEO. W. HOWARD.

## BANKERS AND BROKERS IN ANCIENT ROME.<sup>1</sup>

(MONTHLY REVIEW.)

THE recent discovery of the place which was once the Bourse and the Exchange of ancient Rome, and the laying bare of the pavement of the adjoining "Street of Janus," which may be called the Wall street of the old city, have brought once more into prominence the question as to whether in those days the fluctuations of the money-market, the ways of borrowing and lending, the spirit of thrift, of saving, and of investing in securities, were subject to, or actuated by, the same principles of economy which we consider to be the foundation of our modern public and private prosperity.

First as to the discovery of this business-centre of classic Rome.

A row of banking premises on the north or sunny side of the Forum, where brokers, money-lenders, and usurers received their clients, is known to have existed since the fourth century B.C. The offices were called *Tabernæ Argentariæ*. On the day of the triumph of Lucius Papirius, dictator, gilt shields of the conquered Samnites were lent to the bankers for the decoration of their shop-fronts.

The shops were destroyed in the great fire of 210 B.C., and when they were reconstructed five years later they changed their old name of *Argentariæ* into that of *Novæ*—the New Shops. When Lucius Æmilius Paulus built on the same side of the Forum his famous court-house (the Basilica Æmilia), the bankers' shops were amalgamated in the new structure, on the side facing the public square, from the area of which they were separated by the "Street of Janus."

Money-dealers congregated in this street to transact their affairs, just as the *mercanti-di-campagna*, or cattle-and grain-dealers of modern Rome, meet for the same purpose in the Piazza Colonna. And as these last seek shelter from the incle-

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<sup>1</sup> Copyright 1903 in the United States of America by the Perry, Mason Company.



mency of weather under the portico built by Pope Gregory XVI. on the west side of the Piazza, so the *argentarii* of classic times used to repair to the colonnade of the Æmilian court-house, whenever rain, wind, frost, or heat made the meeting in the open disagreeable or unendurable.

For these reasons Janus, in the sense of a street (and especially its middle section, called the Janus Medius), appears in the writings of Cicero and Horace as the Wall street of the Metropolis, where fortunes were made and lost with equal facility.

Cicero refers his clients who seek for an increase of fortune to the worthies sitting at the Middle Janus; Horace also speaks of the lessons to be learned in this place concerning the value of money; and Damasippus, in one of Horace's satires, mourns over his fortune lost in the same neighbourhood.

We may picture these shrewd old Harpagoes sitting at their desks, upon which piles of foreign and colonial coins were set up under the protection of a wire netting, in roomy but ill-lighted and chilly offices. These offices opened on a portico supporting a piazza, which was used as a stand, whence the processions, or games, or shows, celebrated in the area below, could be viewed.

The shops were distinguished by a number, marked on the corresponding pillar of the portico. Catullus mentions the ninth, counting from the corner by Castor's temple.

The front wall was used occasionally for the exhibition of pictures, representing the latest events of war. One of these battle-pieces was painted on the occasion of the triumph of Caius Marius over the Cimbrians. Among the Barbarians, making their last stand on the battlefield, there was one whose ugly and repulsive face was always taken as a term of comparison by the lawyers arguing their cases in the Forum whenever they wanted to ridicule their opponents.

We cannot enter these newly rediscovered offices, we cannot tread their marble floors, worn by the feet of the bulls and bears of classic times, without feeling a strong sense of actuality, especially as that pavement, as well as that of the Basilica of which the offices formed part, has been found covered with loose coins.

This abnormal dispersion of money all over the place was either contemporary with, or soon followed by, a raging fire;

many coins, therefore, have been melted and welded together into a shapeless mass of metal. These masses, as well as single coins, have also been cemented against the marble slabs of the pavement, which appears all marked with spots of verdigris.

Many thousand specimens of this currency (of the end of the fourth century) have been put aside in these last excavations, and many hundreds are still to be seen cemented to the flooring; but great as their number may be they represent only a small fraction of what the *cinquecento* excavators were able to carry off when they first looted the Basilica Æmilia in 1531.

An eye-witness of this event, Bartolomeo Marliano, mentions "*magnam aerorum nummorum copiam*"—a great mass of copper coins—among the spoils gathered on that occasion.

The existence of bankers (*argentarii*) at Rome can be proved as early as 309 B.C., although silver (*argentum*) was not coined in Roman mints before 268; but their name can easily be explained if we consider them as simple changers of foreign silver into Roman bronze currency, or *vice versa*.

Later on the money-changing business was handed over to an inferior class of agents, called *nummularii*, while pure banking operations, such as the opening of current accounts, the receiving of deposits and the making of loans, was reserved to the *argentarii*. They also drew bills of exchange payable by their correspondents abroad, and delivered letters of credit, an operation which made it imperative for the banker to be acquainted with the current value of the same coin in different countries and at different times.

Judging by the great and various facilities offered to Roman citizens for the safe keeping and the safe investment of the sums of money which constituted the surplus of their yearly balance and the savings of their life, we must come to the conclusion that the spirit of thrift and the economisation of money must have been prevalent in those days.

Although we have no evidence as to the existence of regular savings-banks, we know that money could be put at interest or laid by for future emergencies in three ways: by trusting it to bankers; by trusting it to priests; and by depositing it in safes guaranteed by the State.

As regards the first case: if the money was deposited by the owner as a *depositum*, that is, to save himself the trouble or danger of keeping it and making payments at home, then the

banker paid no interest, but simply honoured the cheques of the client as long as there was a balance in his favour; but when the money was deposited as a *creditum*, that is, at interest for a specified period of time, the banker was allowed to use and invest it to the best of his judgment.

There were less risks, perhaps, to be incurred in ancient times in these dealings than there are now; because the bankers were considered public functionaries, and placed under the supervision of the Prefect of the city; for which purpose they were obliged to keep their accounts in books called *codices*, or *tabulæ*, or *rationes*, open to official inspection. The only danger incurred in dealing with them was that, in case of failure, the law enacted that the claims of the *depositarii* should be satisfied before those of creditors who had money at interest in the bank.

The interest on money (*fenus, τόκος*) was, as a rule, much higher in the early days of Rome than under the late Republic or the Empire. A high rate of interest is characteristic of the infancy of industry and trade, especially in agricultural countries; the natural tendency of small cultivators being to sink into debt, and to mortgage future crops for the sake of immediate subsistence.

Hence in early Latium the rate of interest was originally unlimited and the grievances of debtors—liable to personal slavery by the law of *addictio*—fill a large space in the struggles between the patricians and the plebeians.

The first restriction upon usury was imposed by the law of the Twelve Tables, which established one ounce in the pound as the nominal rate of interest, viz., the twelfth part of the principal, or eight and one-third per cent. annually. Neibuhr, Huschke and Mommsen, however, believe that the legal year for money-lending transactions was not of twelve but of ten months; in which case the interest, sanctioned by the law of the Twelve Tables, would really amount to ten per cent. instead of eight and one-third.

In the time of Sulla the Dictator the interest on loans became due on the kalends, viz., on the first of every month, and this is the reason why the name of calendar (*kalendarium*) was attributed to memoranda of debts or to account-books.

It is evident that towards the end of the Republic creditors had become more cautious in lending money, and more exacting as to the payment of interest due upon it, which amounted then to twelve per cent. This very high rate of one *as* in the hundred per month, was known among the clients of the "Janus" as the *centesima usura*; because a sum equal to the whole principal would thus be paid back in a hundred months.

Under the early Empire we find used the now familiar expression "a modest five per cent.," while higher rates of interest were considered to savour of "sweating." In the time of Trajan we find money invested on mortgage at the wonderfully small rate of two and one-half per cent.

Savings, as I remarked above, could be deposited not only with bankers but also with priests, who used the innermost sanctuary of their temples for a safe. Herodianus, describing the appalling fire of A.D. 191, by which the Forum and the Temple of Peace were reduced to a heap of smouldering ruins, mentions the loss of an untold amount of private property, in money, in jewels, and in securities, which had been confided to the care of the local clergy.

In the temple of Vulcan at Ostia there were two safes, one for small valuables right under the altar; the other, formed of three ample strong-rooms, under the pavement of the *cella*. These strong-rooms were entered through a back door, the folds of which were made of heavy sheets of bronze.

A very fine collection of silver plate, including richly decorated cups, saucers, vases, statuettes, &c., was discovered in 1830 under the remains of the temple of Mercury at Bernay, in the Department of the Eure, France. The collection is now preserved in the National Library at Paris.

My opinion is that the priests not only did not allow any interest on the money confided to their care, but that they must have exacted a percentage from the depositors in return for their guarantee.

The Roman institution, however, which comes nearest to our modern repositories, or safe deposit vaults, is that of the *horrea*, or storage-houses, of which there were two kinds: the *horrea frumentaria*, in which a plentiful supply of corn was kept at the expense of the State to be distributed among the

lower classes, or sold at a moderate price in seasons of scarcity or of famine; and the *horrea* repositories in which the citizens were allowed to deposit such goods or such valuables as they could find no safe place for in their own houses.

These establishments covered an immense area in the plains of Monte Testuccio, between the Aventine and the Tiber, and it was precisely in this district that the official advertisement for leasing a repository belonging to the Emperor Hadrian was discovered in the spring of 1885. I have given the text of this remarkable and unique document in "Pagan and Christian Rome," pp. 45-46. It begins with the words:

"To be let from to-day, and hereafter annually, beginning on December 13th, these warehouses, together with their granaries, wine-cellars, strong-boxes, and repositories. The watching of the place by a body of special officers is included in the lease." Then follow several stipulations as to the length of lease, payment of rent, prohibition of sub-letting, obligations of giving to the keeper-in-chief an assignment of the goods stored, etc., worded in straightforward, honest, business-like language, that would do credit to many modern parallel institutions.

Putting together all these facts and considerations we gain the certainty that the spirit of economy, frugality and thriftiness was widespread among the Romans, wealthy as well as of moderate means, patricians as well as toilers in the field of labour.

However, the only section of this last class which has left for us a certain amount of information about the laying-by of earnings is that of the jockeys, or racers, of the circus (*agitatores circenses*), of whom there were four squadrons in Rome, the Whites, the Greens, the Reds, and the Blues. Juvenal, the satirist, assures us that one of these low, vulgar fellows could make in a short season one hundred-fold the income of a celebrated lawyer.

I discovered on May 20, 1878, near the barracks of the Greens, by S. Lorenzo in Damaso, the eulogy of a young rider of African extraction, named Crescens, engraved on a fine marble pedestal. This fellow of barely twenty-two had already gained—if not put aside—one million and a half of *sestertii*, a sum corresponding to thirteen thousand pounds.

The great Diocles, the prince of Roman jockeys, the Archer of classic times, left to his son a fortune of two hundred and fifty thousand pounds. This is, manifestly, a remarkable case of thrift in a man belonging to a circle which had greediness, prodigality and debauchery for its characteristics.

A third rider, Ælius Gutta Calpurnianus, must also have laid by a colossal fortune, judging from the magnificence of his mausoleum, the remains of which, discovered in 1878 on the Via Flaminia, form one of the best ornaments of the Municipal Museum on the Coelian Hill.

One of the greatest impediments to the spreading of the spirit of thrift must be found in the disgraceful institution of ancient times, by which the lower half of the population of Rome was fed at the expense of the State for purely political reasons. The celebrated Grain Laws, originated at the time of Caius Gracchus, were amplified and perfected in subsequent times by Clodius, Pompey, Sulpicius, Galba, Sejanus, and various emperors to such an extent that sixty-nine millions of hectolitres had to be imported every year from Egypt, and double that figure from Sicily, Numidia, Sardinia, Grenada, and the lower valley of the Danube.

In 312 A.D. there were in Rome alone two hundred and ninety public granaries! Now, when a population feels that—no matter how much money is thrown away and sunk in debauchery—the daily allowance of bread is, at all events, insured, and not only the bread, but also a good share in public entertainments (*panem et circenses!*) why should they trouble themselves about the future and make provision against contingencies from which, really, they had nothing to fear? The fable of the ant and the cricket had no meaning whatever in the minds of a Roman plebeian!

Let us now turn our attention from single individuals to companies, from single labourers to trade unions, from private to collegiate interests. The spirit of association, which generally carries with it a spirit of thrift and of mutual assistance and co-operation, and also the institution of a social fund, was greatly developed in ancient times.

Twenty-six such guilds are registered in connection with the harbours of Rome alone, viz., those of masters of river-barges; of masters of sea-going vessels; of masters and seamen

from Numidia, Sardinia, the Adriatic, Carthage and Terrasina; of bargemen and longshoremen, of ship-builders, caulkers, and naval architects; of timber and iron merchants; of metal-founders; of ferrymen; of measurers of grain; of fishermen, divers, underwriters, bakers, carpenters; of importers of wheat, firewood, wine and leather; of the salt-carriers, &c.

The organization of these trade unions has been closely investigated by Mommsen, De Rossi, Rodocanachi, Waltzing, &c., but, alas! no trace has been found of a fund set apart to help the members in case of need, of sickness, and of bodily disablement, and to insure them a pension when they could work or co-operate no more.

The purpose of these associations was essentially *funeraticium*; they had a social *arca*, or chest, made up of entrance fees and yearly contributions, or from the revenues of collegiate property; but the money could only be spent in providing the deceased members with a decent funeral, a decent resting-place, and a decent periodical commemoration.

Considering all these things, we must come to the conclusion that the spirit of thrift and saving was fairly well developed *individually* in ancient times among the upper and the middle classes; in a much lesser degree among the plebeians, fed and amused as they were at the expense of the State.

Their only anxiety in life was to secure a proper entombment, and to avoid the much-dreaded *puticula* or common pits of the Esquiline; and for this purpose alone they joined together in guilds and companies, and contributed to the social chest. No institutions which can bear resemblance to our savings-banks or prudential institutions can be found in ancient times; there was no public spirit of economy, just as there was no public spirit of charity.

The hospital, even in its rudimentary shape, was not known to the Romans before the third Christian Era. Noblemen were not in need of public medical help, as they counted a family doctor among their own freedmen (*liberti*), while slaves, of whom the manufacturing and trading classes were composed, had to be nursed at the expense of their masters in case of illness.

Whatever feelings of charity may have developed in private individuals, they were counteracted to a certain extent by the

maintenance of slavery, and by the passion for bloody gladiatorial fights, which rendered Roman hearts and souls insensible to the sufferings of their neighbours.

The only institution which savours of a true benevolent and charitable feeling is that of the *pueri et puellæ alimentarii* dating from the time of Trajan. It consisted of distributions of corn, oil, and money to be made every month to orphans and to the children of destitute parents, to whom also an elementary education was imparted gratuitously.

Two records of this institution, engraved on bronze tablets, have already been found, one at Veleia near Piacenza in 1747, one at Campolattara near Benevento in 1832. According to these documents the emperor had lent large sums at low interest to both municipalities, on the security of landed estates, the interest of which was paid to the municipal chest for the support of needy children of both sexes.

In conjunction with the official charities many private charities sprang up at the same time, such as that founded by Pliny the younger at Como, and by Helvius Basila at Atina.

Other records of kindred foundations have been discovered at Terrasina, at Sicca and at Hierapolis. We learn from a decree of Hadrian that boys enjoyed the benefits of this charity up to their eighteenth, and girls up to the fourteenth year; we learn also, from an inscription published by Fabretti, that a boy four years and seven months old had already received nine times the monthly distribution of corn.

At Sicca Veneria, a modest township of Numidia (the site of which is marked by the present hamlet of Kaff), three hundred boys, between three and fifteen, and two hundred girls between three and thirteen, received the benefits of the foundation.

Trajan's benevolent plans were carried on on a larger scale by Hadrian, and brought to perfection by the Antonines, who established additional foundations in memory of the two Faustinas. In fact, the merit of having organized a service of public medical assistance—gratuitous in case of the poor—belongs to Antoninus Pius, who acted, I am sure, under the indirect influence of Christian charity, for the new Faith had made great progress in Rome under his wise and temperate rule.

RODOLFO LANCIANI.



## CANADA'S TRADE—ITS SUSCEPTIBILITY TO AMERICAN INFLUENCE.

THE Canadian foreign trade statistics throw an instructive side-light upon the workings of the American tariff policy. That policy, as everybody knows, was framed avowedly with the object of benefitting the American producer, chiefly by preserving for his sole use the home American market. Scarcely any one will dispute that this home market has been protected effectively from foreign aggression; the tariff lost its virtue in that respect only when the prices of American commodities were put to a level so high that it became profitable for foreigners to sell goods to the United States in spite of the handicap imposed by the duties.

Naturally the trade of Canada was profoundly affected when her big neighbor veered round in tariff policy; when the free intercourse which marked the operations of the Reciprocity Treaty had to give way to the exclusiveness engendered by the McKinley and Dingley tariffs. How Canada overcame this disappointment, how she discovered new avenues of trade for those which were lost, is now an old story. What we have here to consider is the question, "To what extent has the change in the complexion of her foreign commerce rendered her impervious to the depressing influences of commercial reactions in the United States?" The figures and tables which follow were taken from the Statistical Year Book of Canada, and from an article in the *Toronto Globe*, November 5th, 1903, entitled, "Our Industrial Independence."

The first table, taken bodily from the article in the *Globe*, illustrates very plainly the change which has come over our export trade.

Year.	Total Exports.	Exports to U.S.	Percentage of Total.
1885 . . . . .	\$ 79,131,735	\$33,566,810	45%
1886 . . . . .	77,756,704	34,284,490	44
1887 . . . . .	80,960,909	35,269,922	43
1888 . . . . .	81,382,072	40,707,483	50
1889 . . . . .	80,272,456	39,519,940	49
1899 . . . . .	138,462,037	40,426,856	29
1900 . . . . .	170,642,369	59,666,556	35
1901 . . . . .	177,431,386	67,983,673	38
1902 . . . . .	196,019,763	66,567,784	34
1903 . . . . .	219,082,933	71,783,919	32

Our total exports increased in eighteen years \$139,951,-198; of this increase only \$38,217,109 is due to purchases by the United States. As recently as 1888, we were dependent on the United States for a market for half our exportable surplus; by 1903, notwithstanding that the surplus nearly trebled, we have found markets elsewhere which take two-thirds of the whole. It would seem then to be tolerably clear that we are concerned with the purchasing power of our neighbors, not nearly so much in 1904 as we were in 1888; a depression in the United States should not materially lessen the European purchases of our cattle, cheese, butter, hogs, lumber, and wheat. If we produce these things in abundance and can dispose of them to advantage, there cannot be much doubt about the steadiness of our progress.

As there is at hand more complete data respecting our foreign trade in 1902, the figures for that year are preferred over those for 1903 in the analysis that follows:—

*Canadian Exports, 1902.*

Products of the mine . . . . .	\$34,947,574
Products of the fisheries . . . . .	14,143,294
Products of the forests . . . . .	32,119,429
Animals and their produce . . . . .	59,161,209
Agricultural products . . . . .	37,152,688
Manufactures . . . . .	18,462,970
Miscellaneous . . . . .	32,599
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	\$196,019,763

Taking the different items in their order let us now ascertain what proportion of each one finds its way into the United States.

THE MINE.

In the case of this first item on the list it happens that a market for no less than 94% of the whole is found in the neighboring republic,—its purchases footing up \$33,140,839, as against \$1,806,735 by all other countries. But it does not follow because the United States buys our minerals, that we could not sell them somewhere else. Take the most impor-

tant of all, "Gold-bearing quartz, nuggets, dust, etc." \$19,-660 485. Everybody knows that gold possesses international value. The cost of transporting it is measured by "eighths" and "quarters"; no matter what befalls, a market will be ready for all we can produce.

The second in importance among the minerals exported, is coal. In 1902 our exports amounted in value to \$4,867,-088; the whole being sold to the United States. Coal is an article, indispensable to the world's commerce, of which there exists but limited supplies. For quite a number of years the question as to how long the world's supply of coal would last, has exercised the minds of geologists and economists. Looking at the matter broadly, our vision ranging over a number of years, it seems clear that for an article of this kind, an article which must tend to become more valuable as it nears the point of exhaustion, we need not be very apprehensive about finding a market even though our coal may not equal in excellence the product of Shamokin valley or of Connells-ville.

If, during the next year or two, New England ceased to buy from Nova Scotia and the Pacific States from British Columbia, there would undoubtedly be great depression in the coal mining districts; but no one would expect it to be anything but temporary and it would not materially affect the trade of the whole Dominion.

The same thing applies to copper, silver, iron ore, and lead; they are confined to particular localities, the majority of the farmers and business men in Ontario, Quebec, Manitoba, would probably see little difference in their circumstances if our exports of these articles decreased one-half. Indeed, under certain conditions their circumstances might be bettered; if the production of the coal mines continued to be large, and this product could not be sold abroad it is very likely that our home manufacturers and consumers would enjoy cheaper fuel, which is no inconsiderable item in expenses.

#### THE FISHERIES.

Canned salmon, \$5,012,738, cod-fish, dry-salted \$3,161,-674, canned lobsters \$2,149,395, comprise the bulk of the

value in our fisheries exports in 1902. This was distributed among the different countries as follows:—

Great Britain . . . . .	\$ 6,374,877
United States . . . . .	4,184,403
British West Indies . . . . .	961,522
Other countries . . . . .	2,622,492
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	\$14,143,294

Our chief customer here is Great Britain, we look to the United States for a market for less than one-third of what we have to spare. Among bankers it is a common saying that "no matter what befalls other industries nothing so very dreadful can happen the trade in groceries." No matter how bad the times people must have groceries or they could not live. Perhaps the most conspicuous feature in trade depressions is the wholesale institution of sweeping economies by all classes of the population. When the income is lessened luxuries are cut with an unsparing hand; the more expensive among the necessities even, bought more carefully. Workingmen and the less wealthy find that they must partake less frequently of meats; to fill the vacancy thus created on the table the cheaper canned salmon, canned lobster, etc., are substituted freely. Here is a factor whose operations might result in an increased demand for our fish even though a depression should settle on the United States and spread to Great Britain.

It occasionally happens that an extra large catch in particular lines, with a consequent heavy increase in the quantity packed, brings about a temporary glut in the market; but anxiety in the fisheries industry usually centres about the catch; the industry thrives or languishes according as the catch is good or poor.

#### THE FORESTS.

With reference to forest products the *Globe* says in the article referred to at the commencement of this paper, "A long-continued depression in the United States would undoubtedly affect the lumbering industry of Canada."

In the Year Book's classification of our exports by countries the greater part of the products of the forests are includ-

ed with the manufactures. This necessitates taking the two (forests and manufactures) together if we would arrive at the proportion exported to the United States. A glance at the second table will show that the two items total \$50,582,399. This was divided as follows:—

To United States .....	\$21,546,918
To Great Britain .....	21,477,075
To other countries .....	7,558,406
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	\$50,582,399

The chief items, taken respectively by Great Britain and the United States, are:—

	United States	Great Britain
Logs .....	\$ 549,119	\$ 16,297
Deals, pine .....	118,209	3,015,694
Deals, spruce and other ...	460,057	6,399,763
Wood, blocks and other, for pulp .....	1,194,593	120,445
Planks and boards .....	9,365,302	1,623,292
Shingles .....	1,505,850	.....
Laths .....	734,422	.....
Wood pulp .....	1,170,400	818,580
Agricultural implements ..	18,159	378,229
Drugs, dyes and chemicals....	299,126	117,590
Household effects .....	1,450,533	66,541
Pig iron .....	132,753	973,955
Leather, sole and upper.....	16,464	1,803,859

Giving special attention to our trade with the United States, we find the largest item to be "planks and boards" \$9,365,302. Now these, and in fact nearly all the forest products we export are used chiefly for construction purposes. It is precisely here that our neighbors are already beginning to economize; the energy displayed by both railroads and building companies shows unmistakable signs of falling off. As the *Globe* has pointed out, this is the danger ahead of our lumber industry. But, all things considered, it can scarcely be said that it is a very menacing danger; its evil effects cannot be other than temporary. Canada is one of the few countries possessing large tracts of available timber lands. We are

brought nearer to a monopoly in possession by each year that passes; the remarks previously made about the world's supply of coal apply even more forcibly to the world's supply of timber; it will be no great hardship for us if our sales fall off for a year or two. The prospective building of the Grand Trunk Pacific is frequently mentioned as being likely to furnish an extra market for our lumber, compensating us in some degree for a possible contraction in the usual market in the United States. If the capital for this new enterprise is brought from London, as everybody expects, the economic and financial effect for the time being will be exactly the same as if our product was exported. The fresh British capital, while it remains, will perform exactly the same work as would the American capital received by us in payment for lumber exported and sold to foreigners.

As to the extent to which our manufactures generally would be affected by a depression in the United States we purpose taking up the investigation further on in this paper, when dealing with the question of imports. Excepting the lumbermen, Canadian manufacturers do not greatly fear that their business will be much injured because of a falling off in their sales to the United States; those sales have already been reduced pretty well to a minimum by the operation of the American tariff. What is dreaded is that our home market will be upset by an influx of "dumped" American goods thrown into Canada perhaps at a loss to relieve the over-production in the Republic. As this contingency obviously relates more to our imports than to our exports its discussion can very properly be left till those most important among the items of our exports, "Animals and their products" and "Agricultural products," are dealt with. Both are taken under the head of.

#### AGRICULTURE.

In 1902 our exports of the direct and indirect output of our farms amounted to \$96,313,897, or very nearly half our entire exports. In 1903 the proportion filled by these was even larger, and amounted to more than half the total, \$114,441,863 out of a total of \$214,401,674. It is a well known fact that a great deal of the pessimism prevailing in the United States is caused by the general acceptance of the

theory that an index to the true state of industry and trade is always to be found in the condition of the iron industry. When the iron trade is greatly disturbed it is accepted by a large number of observers as an infallible indication that signs of unhealthiness will shortly appear in the other principal industries. The *New York Post* and the *Wall Street Journal*, have been endeavoring recently to combat this theory; they have argued that the true source of the national prosperity is found, not in an active production of iron and steel, but rather in bountiful crops of cotton, corn, wheat, large and growing herds of cattle, sheep, hogs. These, they say, 1903 has contributed in abundance; but, rapidly as the productions of agriculture, of the mines, of the forests, have augmented the available wealth of the country, they have not supplied money with rapidity enough to keep pace with the vast necessities of the great construction, improvement and betterment work that has been carried on. And that consequently the credit system has been called on to perform more than its ability; in the words of Wall street "capital has become entangled." The situation became so acute that wealthy capitalists were called on to pay loans which they never dreamed of paying except at their own convenience; borrowers who had never before been disturbed were forced to sell realizable property in order that bank reserves be maintained at the legal ratio. That "operators for the decline" in the stock markets should take advantage of a situation like this was both natural and inevitable; that they should seek to accentuate the trouble by releasing a flood of gloomy rumors was something that might have been expected by everybody who knows the character of stock market dealings. It so happened that they were aided in their work by the fact that glaring irregularities and plundering of stockholders in some of the trusts came into light at this juncture; that other trusts broke down under the strain of too heavy capitalizations; that sound industries, capitalized moderately, found themselves handicapped too severely by the rapidity of the rise in wages and in the cost of production.

If the United States is justified in taking comfort because the prosperity of the agricultural interests at least balances the depression in the iron trade, it would seem that Canada could afford this year to view the troubles of Pittsburg, Sydney, and Sault Ste. Marie with comparative equanimity; for

our crops also have been excellent, and the prices at which they were marketed, satisfactory. For this great agricultural output of ours we depend on the United States for a market, only to a trifling extent; Great Britain is the chief customer as the next table shows:—

AGRICULTURAL AND ANNUAL EXPORTS, 1902.

	To United States	To Great Britain
Horses .....	\$ 345,048	\$ 435,155
Cattle .....	787,864	9,742,738
Sheep .....	908,892	525,336
Cheese .....	12,038	19,620,239
Butter .....	41,149	5,459,300
Furs (undressed) ....	648,028	1,114,533
Hides .....	1,629,393	32,600
Bacon .....	42,047	12,119,342
Canned meats ...	1,071	855,895
Apples (green or ripe) ..	49,348	1,495,107
Oats .....	60,930	1,401,150
Peas .....	170,026	1,210,590
Wheat .....	9,161	18,024,257
Flour .....	37,455	2,290,056
Hay .....	502,700	1,702,538
Clover seed ....	276,962	620,456
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	\$5,522,112	\$76,649,292

The above statement shows that we may dismiss from our calculations the question whether or not our commerce is likely to be injured by a decrease in our sales of agricultural and animal products to the United States. These are already so small (being less than one-seventeenth of the total) that we would not be greatly injured if they vanished altogether. But there is another way by which we might be hurt in our export trade by a depression in America. What if the United States, impelled by overproduction, should assail us in the British market? There can be no doubt that the Americans seek to cure their temporary setback through increasing their exports to Britain and the continent of Europe. For a number of months the best informed among European economists and business men have been anticipating that the scarcity of money in America would force heavy sales abroad of all kinds



of American commodities. It is just a few weeks since the Eastern trunk lines of the United States, in order to facilitate this very movement, granted a concession of 33½% in freight rates on iron and steel goods exported by the United States Steel Corporation. In this we are more likely to be hit in our manufactures than in our agriculture. Large as the crop production of the United States undoubtedly is, the great bulk is consumed at home; the surplus available for export invariably comprises but a small proportion of the whole. Obviously the nature of the competition from American products which our farmers experience in neutral markets will depend very largely on the size of the American surplus for export. Varying climatic conditions in the different crop seasons with consequent variations in the yields have a great deal more to do with the size of this surplus than fluctuations in industrial activity can possibly have. Without doubt consumption of foodstuffs will be lessened somewhat by hard times, and whenever it happens that the exportable surplus of the United States is increased from this cause we may expect from that quarter keener and more aggressive competition for the possession of the markets of Europe. Under such circumstances it would be our plain duty to assist our premier industry as much as lies in our power; fortunately it stands in no need of pampering by way of bonuses or exemptions. What it wants most is to be let alone. Figuring largely in the cost of production are items such as farm implements, wagons, threshers, wire, lumber, clothing, etc., the expense for which is increased or decreased according as the tariff is raised or lowered. It is, no doubt, gratifying to our national pride to hear of new towns springing up around great manufacturing plants; of thousands being added to the population of our cities through the establishment of new works and factories; but it is well to recollect that pleasure and gratification can be bought too dear, and it certainly seems that we get them at too much expense whenever we bring these things to pass through the imposition or the maintenance of burdens upon our most important industry of all.

It is quite conceivable that our manufacturers might be helped to hold their position in neutral markets if our tariff was put high enough to give them the home Canada market absolutely to themselves. A beautiful example of how this would work out is seen at this moment to the south of us.

American producers, protected by a high tariff are selling steel rails abroad at \$20 per ton while at the same time exacting from their own people \$28.00 per ton. This is something which not many Canadians will want to see in Canada, if our foreign markets cannot be held in any different fashion they had better be lost.

*Imports for Home Consumption, 1902.*

Dutiable goods . . . . .	\$118,657,496
Free goods . . . . .	84,134,099
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	\$202,791,595

Of the above there were imported from the United States.

Dutiable goods . . . . .	\$ 60,181,808
Free goods . . . . .	60,632,942
	<hr/>
	\$120,814,750

The chief items composing this sum, were:—

*Dutiable Goods.*

Coal, bituminous, and coal dust . . . . .	\$ 5,860,034
Cottons . . . . .	1,582,113
Iron and steel and manufactures of . . . . .	17,814,070
Leather . . . . .	1,468,882
Paper . . . . .	1,471,789

*Free Goods.*

Coal, anthracite . . . . .	7,021,939
Hides . . . . .	2,168,127
Tobacco, unmanufactured . . . . .	1,919,916
Flaxseed . . . . .	1,714,773
Indian corn . . . . .	2,480,397
Cotton wool . . . . .	5,572,722
Metal, iron and steel, and manufactures of . . . . .	8,837,992
Rubber crude . . . . .	1,386,681
Binder twine . . . . .	1,507,344

It is the manufactured part of the trade outlined in the above figures which our manufacturers seek to curtail. Their

argument, which is certainly well-founded from their own point of view, is that lasting injury will be done to Canadian industry unless the Canadian tariff is put high enough to prevent the entry, except at a loss, of such American goods as are also made in Canada. To the large body of Canadian consumers it might seem, if these views were met, that it was not altogether a matter for congratulation that so many items among the necessities of life *are* made in Canada.

There is no question but that a long continued depression in all the branches of American trade would bring great hardship on many of our manufacturing cities and towns. The Canadian market is the nearest and handiest among the dumping places for American goods. Whenever the United States suffers from over-production we nearly always get our full share of dumped goods. Not all of our industries, however, are seriously affected; only those which cannot work except behind the tariff wall. For many of these it means mills on half-time or closed down altogether, men thrown out of work and reductions in the pay of men kept employed, defaulted dividends or bond interest, reorganizations or receiverships, with great loss of trade to the grocers, butchers, etc., who handle the necessities of life. That is the black side of the shield. To those persons whose incomes are not reduced, and they are by no means inconsiderable in point of numbers, a depression would mean cheaper living, better opportunity to save. If this latter class be but numerous enough the depression will be no depression at all. If our farms continue to yield abundantly and the produce is sold well and profitably we can afford to snap our fingers at the greatest depression the United States ever saw. For us, this is the crucial point—the condition of our farmers. Prosperous, they will quickly absorb not only the American dumpings but any reasonable output of our own manufactures as well. These reasonings and calculations are based on the happening to the United States of quite a severe depression. It is not by any means certain that a severe depression will happen to them at this time.

In that case we have nothing whatever to fear from our trade connection with them. In the worst event, if they do experience a severe setback, it is hard to see how it could inflict permanent material injury on us. But it does not follow, because interested manufacturers and politicians have sought to exaggerate the danger to our trade from the direc-

tion of the south, that we are in no danger at all. Prosperity breeds danger; many of the influences which have exercised evil effects on American industry have also been busily at work with us in Canada. Although our growth is solid in the main, it may be that in some sections too much haste is made. It is possible to foresee that trouble might ensue from the locking up of too much money in North-West land. Mr. Clouston, of the Bank of Montreal, tells us that our branch bank extension has been perhaps a little rapid; President Macpherson, of the Molsons Bank, apprehends that too many of the new loans made by Canadian banks may have gone into speculative channels. If we have erred, the penalty will have to be paid. As to whether we have or not, the future only can decide. But if it is so, let us manfully acknowledge whatever faults we have committed and not seek to lay the blame altogether on the backs of our neighbors. We certainly have the advantage of them in one respect—our banking system is admirably suited to our needs; and our bankers have a record for a wise handling of troublous times.

H. M. P. ECKARDT.

## THE PROPOSED MONTREAL BANK CLERKS' INSTITUTE.

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A MEETING of bank officials was held at the Merchants Bank of Canada, in Montreal, on the 9th ultimo., for the purpose of considering the formation of an Institute under the auspices of the Canadian Bankers' Association. About seventy officials of the various banks were present. By request of those in attendance, Mr. J. Gillespie Muir, of the Merchants Bank of Canada, occupied the chair. Mr. Muir who is a Fellow of the Institute of Bankers of London, England, addressed the meeting as follows:—

“The object of the proposed Institute is to afford to the younger members of the profession opportunities for the acquisition of knowledge of the theory of banking, and to encourage them to read and discuss, from time to time, papers of practical interest.

By these means, they would become thoroughly acquainted with every branch of their profession.

As a rule young bank officers have their evenings to themselves, free from care and worry. It is, therefore, possible for them to devote their leisure time to mental culture, and to the acquisition of useful knowledge. What we acquire in early life clings longest to our memory. The present moments are the most precious, and should we let the occasion for improvement slip by, it is gone beyond recall. After all, one need devote only a few years' study of all that is required in banking to make the rest of life's work comparatively easy.

Lord Bacon says: “Every man is a debtor to his profession, to endeavour to advance it.” In the banking profession however great a man's abilities may be, he can always acquire *more* knowledge of his business; and to apply that knowledge with success, he must study *steadily* and *persistently*, and,—what is *more* important,—*regularly* every day, for as Hamerton says, the only way to become thoroughly conversant with a subject is “to live in it with happy familiarity.”

In England, bank officers have the privilege of being able to attend lectures given by eminent authorities on banking.

Papers have been read before the Institute by such authorities as Mr. Goschen, formerly Chancellor of the Exchequer; Mr. Hilton Price, Mr. Palgrave, Sir John Lubbock, and several of the Governors of the Bank of England. As many as 500 and 600 members have attended these lectures, but, as we do not enjoy this advantage, the next best thing, it seems to me, would be to form an Institute, where meetings could be held at stated periods, and, where full scope would be given for interesting lectures and discussions. The intention therefore of this Institute is, that younger members should make a special study of any subject or paper to be submitted for discussion, and then take part in the discussion, and thoroughly sift the points brought up.—(I may mention that the Bankers' Institute in London, which was founded in 1879 with a membership of 1,400, has now over 3,000 members, and a few years ago a "Bankers' Debating Society" was formed, the outcome of a movement among the members themselves, which has proved to be very successful). With a little practice our members would soon learn to think with *precision* and feel quite at home when giving expression to their views and opinions.

This would prove to be an excellent plan; for, many a student, although fairly well read, feels that he has not sufficient confidence to speak in public.

There would also be a great advantage to be derived from the facilities granted by the Institute, of intercourse with brother officials. We can discuss later whether it should not take the form of a social club as well.

Another point I should like to bring before you, is this:—I am confident that the Bankers' Association will assist the proposed Institute, and would offer inducements to members to qualify for examination, and afterwards grant certificates to those who pass. This is the plan adopted by the Institute of Bankers in England, and a large number of the younger members take advantage of the facilities offered them for study.

The papers usually given are on the following subjects:—

Political Economy, Practical Banking, Commercial Law, Arithmetic, Algebra, and Book-keeping. I have before me, a list of books recommended for study by the London Institute, and also "Questions for Examination."

It should be the aim of the younger members to qualify themselves for the intelligent discharge of the higher, practical duties of their business. They would thus be better prepared to deal with difficulties as they arise in their own daily experi-

ence, and would of course have an immense advantage over those who do *not* study.

I do not pretend to say, however, that in the event of a vacancy occurring in the staff of a bank a good all-round clerk should be superseded by an indifferent official, whose only qualification is a fair knowledge of the *theory* of Banking. But, I think that the man who is unwilling to simply follow "the dreary drudgery of the desk's dull wood": that is, to be merely "*rond-de-cuir*," and who strives to make himself acquainted with the theory, as well as the practice of his profession, should get the appointment. In cases of emergency, he is, as a rule, selected. We all know that there are numbers of men very good at theory, but when it comes to applying that theory they are quite useless. The great thing is to learn to combine both.

I am confident that the direct and indirect advantages of being associated with an institute of this character will become apparent to the younger bank officials.

As time goes on and the membership increases, a small circulating library of books on banking subjects could be organized, so that members who would not care to go to the expense of buying such works could have access to standard books of reference for special occasions.

Having outlined what seems to me a good plan, I should be very glad to have your suggestions and opinions on the subject. I have at hand copies of the by-laws of the Canadian Bankers' Association, and also a copy of the constitution and rules of the Institute of Bankers, London."

At the close of the meeting, a committee was appointed for the purpose of ascertaining if the proposed scheme was likely to receive the cordial support of those most interested in its formation and success, and it is now confidently expected that bank officials resident in Montreal will soon be in possession of suitable quarters for educational meetings and for social functions.

## Obituary.

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### EPHRAIM ELLIOTT WEBB.

The late general manager of the Union Bank of Canada, Mr. E. E. Webb, whose death occurred at Quebec on the 7th instant, was the son of the late Mr. C. C. Webb, and was born in the township of Hull, P.Q., on the 5th July, 1853. He received his earlier education at the Collegiate Institute, Ottawa. At the age of nineteen years he entered the service of the Union Bank of Canada, and, except for a period of two or three months in the early eighties, he remained an official of the same institution until his untimely death. Upon the retirement of Mr. P. MacEwen from the position of Cashier in 1885, Mr. Webb was chosen to succeed him, and in July, 1892, was appointed General Manager. He discharged his responsible duties to the entire satisfaction of the directorate of the bank, and to his ability and zeal the shareholders are largely indebted for the progress and expansion of the Union Bank of Canada.

Mr. Webb married Miss Mabel T. Perley, daughter of the late W. G. Perley, M.P., of Ottawa, who, with three children, survives him. He was a director of the Quebec Railway, Light & Power Company, in the affairs of which corporation he always displayed much interest. He was for many years a member of the Financial Advisory Committee of the Church Society of the Diocese of Quebec, and also a churchwarden of the Cathedral of the Holy Trinity. One of the oldest officials of the Union Bank, in writing of his late chief, says:—"His kindly disposition and quiet hospitality endeared him to every friend and acquaintance, and I shall always think of him as one of the best men I have ever met." Dean Williams adds this tribute to the worth of the deceased gentleman:—"He was in every sense a man of true Christian faith, generous to a remarkable degree, charitable, kindly, considerate, wise in judgment, and ever ready to give his best attention and sound advice when consulted."



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### JOHN CAPE MORE.

Mr. J. C. More, Manager of the Merchants Bank of Canada, Quebec, for the past sixteen years, whose sudden death on the 3rd instant proved a sad surprise to his numerous friends, enjoyed the affection and esteem of every citizen who had business dealings with him, or who had the pleasure of meeting him in private life. He was a gentleman of genial temperament, and his death, preceding as it did by only a few days that of his friend, Mr. Webb, has caused widespread sorrow in the old city of Quebec.

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## QUESTIONS ON POINTS OF PRACTICAL INTEREST.

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**R**EPLIES may be obtained, through this column only, to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

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### *Can Deposit be Held in Payment of Matured Note.*

Question 572.—The endorser on a note, held by a bank, having a deposit in the said Bank, said note having been duly protested, can his deposit be held in part payment of said note and costs and his cheque refused?

Answer.—Yes; the debt is exigible, and therefore a valid charge against the deposit.

### *Direct Liability of Acceptor of Draft.*

Question 573.—A. draws a draft upon B. payable to the order of C.; B. accepts draft, which is then endorsed by C., and discounted at the Bank. Which party, A. or C., is to be considered directly liable to the Bank; or, in other words, who is the direct and who indirect endorser?

Answer.—B. is the party directly liable on the bill—if dishonoured and protested the drawer and endorser are equally liable to the holder, and, as between themselves the drawer is liable to the endorser.

### *Real Estate as Additional Security.*

Question 574.—Section 68 of the Bank Act authorizes a Bank to take real estate or additional security.

1. Can the Bank take a deed of the property instead of a mortgage?

2. What is the meaning of hypotheques in section 68?

Answer.—1. The Bank's right is limited by the wording of section 68. Mortgage is a technical word in law, and means a deed of conveyance from borrower to lender with a condition that the lender's estate will determine if the loan is repaid by a certain date. The Bank could take a deed to this effect only.

2. A *hypothèque*, by contradistinction does not ostensibly divest a borrower of the ownership of a property, but gives the lender a preference on the sum derived from it when sold, in default of repayment of the money borrowed.

### *Gold as Legal Tender in Canada.*

Question 575.—Is the English Sovereign and the U. S. \$5 gold piece legal tender in this country, as I cannot find it in the Bank Act?

Answer.—Yes; vide Revised Statutes of Canada—1st Volume—Chap. 30, sections 2 and 7.

### *A Bank's Claim on Estate Restricted.*

Question 576.—A Bank obtains judgment against a farmer and his wife, which is not satisfied, and subsequently, to enable them to carry on their farming operations, gives them a further advance on a note with a good endorser. The man dies and claims are called for. The Bank includes in its claim the amount of the judgment and the note which was not due. The estate pays 50 cents on the dollar. When the note falls due the Bank claims the full amount from the endorser.

Can they do this or must they allow for the 50% received from the estate of the primary debtor?

Answer.—Only the unpaid balance of the note can be claimed from the endorser. 50% of it has already been paid.

### *Deposits in Savings Bank—Claimants to Same.*

Question 577.—A deposit in Savings Bank is put in the following form:—"Mary Smith and in case of death her granddaughter Mary Jones."

1. Can Mary Jones draw the amount of the deposit after death of Mary Smith by simply producing the pass book and signing a cheque?

2. If Mary Smith died leaving, or without a will, could the executors or administrators disturb the deposit?

3. If Mary Smith willed the deposit to some other person than Mary Jones, could the executors then withdraw the deposit?

4. What evidence should the Bank require of the death of Mary Smith?

Answer.—Such a deposit being a donation in case of death is not legal in this Province (Quebec.)

1. Mary Jones cannot draw it.

2. The Executors are the proper people to draw it.

3. The deposit should be paid by the Executors to the party to whom it is willed.

4. An ordinary certificate of death.

*Identification—Request for Same Reasonable even if not Legally Requisite.*

Question 578.—Let A. be the payee of a cheque and B. the paying teller of a bank.

If A. presents a cheque marked good by the bank in which B. is paying teller, to B. for payment, and is told that he is not known to B. must A. find identification for himself or can he force B. to pay him on his word?

In the event of B. again refusing payment of the cheque could A. sue the bank?

Answer.—The certification of a cheque signifies no more than a recognition of its genuineness, and a virtual undertaking to hold the funds at the disposal of the payee.

Irrespective of this consideration, the payee of a cheque is not under any legal obligation to have himself identified to the bank's satisfaction, and could sue the bank.

Looking at the practical issue, however, he would probably gain no more through the medium of a lawsuit than the amount of the cheque and interest, whereas payment could be immediately received by complying with the Bank's reasonable request for identification.

## CORRESPONDENCE.

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St. Catherine Street, East,  
Montreal, October 1903.

Editor,

Canadian Bankers' JOURNAL, Montreal.

SIR.—I would like to hear the opinions of bankers as to the utility and necessity of opening at night for the transaction of business, does it pay?

At the east end of St. Catherine Street all the banks are open each night from seven to eight o'clock. Apart from Saturday and Monday evening, I think I am correct in stating that very little business is done *which could not easily be done in daytime*. I have the assurance of many business men on this point.

Many storekeepers use the banks to deposit their cash in over night and thus reduce risk of burglary; others not so well off, take advantage of the night opening to get their cheques held over until next day.

From the bank clerks' point of view night opening does not pay. He seldom leaves the office before 4.30 p.m., and must get his dinner over before 6.30 p.m. in order to rush back to the office in time to open up at 7 p.m. Neither can he take advantage of the Saturday half-holiday and go out of town for he must be on hand in the evening. It is the mad competition for deposits that has brought this about, and I question if it pays, all things considered. I wish Mr. Stewart-Patterson had touched on this in his well thought out article.

Yours truly,

X. Y. Z.

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[Number 3

# JOURNAL

OF THE

## CANADIAN BANKERS' ASSOCIATION

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*APRIL—1904*

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EDITORIAL.

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The House of Representatives in the United States is wrestling with a bill introduced by a gentleman from Tennessee having for its object the redemption, at the expense of the Government, of dirty and defaced paper currency. It is claimed that the cost of remitting old and worn bills to the Washington treasury deters the majority of American banks from seeking to exchange old for new notes, and that the "Clean Money Bill" is the outcome of public clamour for greater freedom from the danger of contracting disease by reason of handling the dirty bills in daily use across the border.

The agitation for clean money is not confined to our neighbours. In a recent report of parliamentary proceedings, at Ottawa, the Minister of Finance, when explaining the item of expenses in connection with the issue and redemption of Dominion notes stated that the increase therein was owing to the efforts of the Government to improve the condition of the circulation.

In Canada  
Also

In the brief debate following the explanation of the Finance Minister, much of what was said was evidently not based upon knowledge or close observation. Mr. Osler admitted that the condition of the Dominion notes now in circulation showed some improvement, although they were still "not comparable for cleanliness" with those issued by the United States Government. Mr. Clarke evinced a desire to ascertain if the Government was "doing anything to get the banks to make their circulation cleaner." The Minister of Finance, in reply to Mr. Clarke, expressed the hope that the chartered banks would be "influenced by the force of example" set by his department, and make an effort to circulate only clean money.

Parliamentary censure of the chartered banks in connection with their circulation of notes is not deserved, and, if Mr. Clarke had taken the trouble to interview some of the banks before asking his question in Parliament, he would have ascertained that the banks are not to blame for the filthy condition of the occasional note which falls into his hands. The majority of men and women, when distributing money in payment of purchases made, invariably select the soiled bill wherewith to settle, and the recipient being equally anxious to get rid of same the dirty note is thus kept in circulation. If the few members of Parliament who object to handling the notes of our chartered banks would produce evidence that the money complained of has been received from said banks, there might be reason for Mr. Clarke's request for Government intervention on behalf of clean money. The best proof of honest effort on the part of each chartered bank to provide the country with clean money is found in the records of circulation kept by the Canadian Bankers' Association. Examination of the monthly reports issued to the Government, and to the chartered banks, shows that, during the year 1903, the directors of Canadian banks presided at the destruction of no less an amount than \$16,522,281 in notes condemned as unfit for further circulation.

In face of these figures, further comment is unnecessary. The public and not the banks are responsible for keeping dirty notes of our chartered banks in circulation in the Dominion of Canada.

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The discussion over branch banking continues to occupy a big share of attention in the United States, and the parties to the dispute as to the wisdom of adopting the Canadian system appear to entertain opinions as divergent as the two extremities of the imaginary axis of the earth.

**Branch Banking** We find in one number of a Chicago financial paper the following in support of the small local monetary institutions:

"The age of small banks is upon us. In October fifty-seven new nationals were organized with an aggregate of but \$2,500,000 in capital. The total number of this small banks under the \$25,000 capital provision of the act of 1900 is 1,765. The increase has been in the West and South. There is a school of finance which teaches that all banking should be done by big banks, banks big enough to advertise in the metropolitan papers. Observation, however, shows that these small banks have the widest possible influence in building up the newer towns in the West and South."

In another and later number of the same journal the multiplication of small banks is said to be "a weakness of the national banking system." They are condemned because of their "decidedly limited resources," and as being singularly liable at any time to "incompetent or injudicious management." This critic of the vaunted 1765 small banks created under the \$25,000 capital provision of the act of 1900 says:

"In a generally prosperous condition of business, such as we have had since the Act of 1900 stimulated the organization of many small banks, there may be few failures or serious losses, under the close supervision of the Comptroller's office; but let an adverse period set in and we are likely to see many of these institutions breaking down and causing trouble far beyond their own localities. Branches of solid city banks would serve their purpose much more effectively, cheaply and safely; but probably this will have to be taught by costly experience before the idea will find favor.

There are many opportunities in and around Chicago for state branches. Many congested districts are entirely without facilities and should be accommodated. One of our strongest state institutions has the matter under consideration, and before long we may see a chain of branches, departments or allied incorporations, whichever form they may take, which will be a revelation."

With one writer declaring that the age of small banks is upon them, and another financier, whose opinion is probably equally valuable, declaring that branches of solid city banks



would serve the people more effectively and safely, our brethren to the South must be hard put to it to determine whose advice to accept.

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Notwithstanding the outbreak of war in the East, those who claim to study the financial situation on both sides of the Atlantic seem to agree that there will be no financial disturbances beyond the borders of the countries engaged in the costly game of war. The rates for money in London and Paris are reported to be easy with no signs of advance in the immediate future, and the condition of the money market in New York is said to be satisfactory. Business is not so brisk as it was twelve months ago, and there is consequently more surplus money available.

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A recent copy of the London *Times* contains a report of an application made by a gentleman to the magistrate at Bow Street for advice as to how a lodger (described in another paper as an elderly bank clerk) who captured, killed, cooked, and ate cats could be ejected from rooms he occupied in the neighbourhood of Russell Square. The magistrate remarked that he saw no reason why any one should not eat cats, provided they were his own cats. However, the applicant for advice said he could not stand cooked cats in the house, especially when his lodger persisted in throwing the skins out of the window. Eventually, on the recommendation of the magistrate, the landlord left to consult a solicitor.

We do not know with whom to sympathize in this matter. That a gentleman should dine, not wisely but too well, off roast cat is, we frankly admit, not pleasing to think about, even if we are told that the possessor of the strange appetite is in the habit of soothing his troubled stomach with something hot at the close of the queer repast.

At the same time we must say there is comfort to be found in the thought that every cat cooked and eaten in the neighbourhood of Russell Square, London, or elsewhere, adds to the chances of undisturbed slumber for the dwellers in the district where this epicure may make his lodging.

The selection of articles of food may be merely a matter of choice or inclination. Yet we venture to think that in banking lunch rooms cold, or even hot, eat will always be regarded as a luxury, a much cultivated taste.

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The final compilation of bank clearings for the year 1903 shows Canada in a most favorable light. The aggregate of ninety-two clearing house cities in the United States reveals a decrease of 7.4 per cent. from 1902, which year showed a decrease from 1901, the banner year in American bank clearings. The principal decline was at New York, which showed a decrease of 13.5 per cent. from 1902.

In Canada, the total clearings of the ten clearing house cities showed an increase of 5.2 per cent. Nine cities in the United States show clearings in excess of the total for the Canadian metropolis:—New York, Chicago, Boston, Philadelphia, St. Louis, Pittsburgh, San Francisco, Baltimore and Cincinnati.

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The vice-president of the Chicago Corn Exchange Bank has, it appears, had to explain to some inquisitive interviewers that his warning to young men in the service of the Exchange not to marry on less than \$1,000 per year was not intended as a joke. He says that to attempt to take care of a wife and family with an annual income below the amount named is "*nonsensical folly*" and that he would feel partly responsible for any misery which might follow his approval of such a course.

To repress love, however, is difficult:—

The more thou damm'st it up, the more it burns:  
The current that with gentle murmur glides,  
Thou know'st, being stopp'd, impatiently doth rage.

To advocate or order compulsory celibacy has aroused bitter feeling in all ages of the world. Yet the vice-president of the Chicago Corn Exchange, or any gentleman of mature age and experience, when warning young Celadon to wait for his Amelia until he is able to support her in comfort without reducing his own daily rations and raiment, is rendering the young lovers a lasting service.

While the record of clearings for New York has for some years past exceeded that of London, the following figures are nevertheless striking. Six years ago, the total amount passed through the New York Clearing House for the first time proved to be larger than the clearings of the English metropolis. But although London has not regained its supremacy, the student of figures may find something significant in the marked decrease in the annual New York clearings since 1901, while the English figures for the same period have been gradually growing, the total for last year being the highest recorded in the history of the London Clearing House. Our table will be found interesting:—

YEAR.	LONDON.	NEW YORK.
1898.	\$40,486,000,000	\$41,971,000,000
1899.	45,751,000,000	60,761,000,000
1900.	44,800,000,000	52,634,000,000
1901.	47,805,000,000	79,427,000,000
1902.	50,143,000,000	76,328,000,000
1903.	50,599,000,000	65,970,000,000

The report issued by the Clearing House of England's capital would seem to render it unnecessary for the present generation to grow mournful at the thought of the possibility of any stranger sitting on the balustrade of London Bridge moralizing over the downfall of the British Empire.

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Some of the best of the United States newspapers are expressing unqualified approval of the measure introduced in the Senate at Washington, to increase salaries in the executive and legislative departments. The proposals meeting with the most pronounced signs of favour, are those giving the president \$75,000 instead of \$50,000, and the members of his cabinet \$15,000 instead of \$8,000 each. This Dominion also can well afford to deal more liberally with those who occupy the leading positions in the service of their country. Cabinet ministers and judges should be far removed from financial worry.

A Good  
Example

According to an English paper, one of the many attempts to find an escape of gas with a lighted candle was lately made, we regret to admit, by a bank manager in a provincial town. He

found the gas, but lost his hair and eyebrows. **The Crop that never fails** However, the gentleman in question cannot claim to possess greater curiosity or stupidity than that which characterized a Cincinnati colored man who having found an old 20 pound shell of the kind used in the war which liberated his Southern brethren from slavery placed it in the fire to find out if it was loaded. It was loaded.

When the hollow sphere of iron burst into pieces, the man, who had sat down before the fire to await the result, went across the room and through the wall, fortunately head first, and the noise of his experiment aroused the neighbourhood and compelled the fire department to turn out.

The Cincinnati colored man, like the gas-seeking English banker, is not dead. After the explosion he claimed to know where there was another shell, but he seems to have betrayed a sad lack of interest in finding out whether it was loaded. Perhaps the English bank official knows where there is another escape of gas, but we are not told that he has gone in quest thereof with a naked light.

Both the white and the colored race can be relied upon for occasional contributions to the crop that never fails—children and fools.

The general managers of not a few of the Canadian banks, have in the past objected to members of their staff becoming soldiers. There have been occasions when the

**Bankers as Soldiers** call to arms for the preservation of internal peace has so reduced the working strength of the banking rooms and counting houses, that it has created trouble and annoyance sufficient to make employers antagonistic towards military service. It is to be hoped the provision of the new militia bill, by which it is decreed that the permanent force shall in future be first used when the civil authorities require assistance, will remove from the minds of bank managers the last vestige of objection to their young officials volunteering for service in the militia. Drill, discipline and camp-life tends to improve the health, physique and appearance of our young men, and it cannot

surely be denied that those members of the staff of a bank who occasionally serve their country as soldiers, display the right spirit. Now that the performance of police duty will be no longer required of them, our volunteer troopers and riflemen should be encouraged in their efforts to become soldiers who can, when the shrill clarion of war calls men from the desk to the field, both ride and shoot.

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A letter from Mr. J. Gillespie Muir, of the Merchants' Bank of Canada, in this number of the JOURNAL, records the failure of his indefatigable efforts to accomplish something in the direction outlined by the members of the C.B.A. The Montreal Bankers present at the annual meeting in November last. Institute

It is a matter for sincere regret that the three hundred and fifty bank officials who signified their intention to become members of the proposed Montreal Institute of Bankers have been denied the benefits to be derived from the formation thereof because of the apathetic indifference to the scheme displayed by a few of the bank managers.

However, Mr. Muir and his committee have not surrendered to circumstances without a struggle. In returning the subscriptions received, the chairman of the committee, who deserves the thanks of all the Montreal bank clerks, has written to each supporter of the now abandoned project the following explanatory letter:—

Montreal, 8th April, 1904.

The General Manager,

— Bank of —  
Dear Sir.—

*Proposed Bankers' Institute.*

I beg to return herein the cheque for \$— which you were good enough to enclose in your letter of — ulto', and in doing so I desire to express my sincere thanks for your prompt and generous response to the request of the committee for monetary assistance towards the formation of a Bankers' Institute.

It is with extreme regret that the committee appointed to assist me in the formation of the proposed Institute, have to acknowledge that the apathy and indifference of some of the banks render the success of the scheme outlined to you in my previous letters, impossible.

Again thanking you for the great kindness and goodwill expressed by your bank towards our enterprise.

I remain, dear Sir,

Yours faithfully,

J. GILLESPIE MUIR.

Chairman.

Critics of the condition, and the policy, of the Bank of England have been directing attention, in the London Bankers' Magazine, to its reserve fund, claiming that the same is inadequate. While the Bank of France,

**Bank  
Reserves**

the Bank of Germany, and the banks of the United States, have increased their reserves very largely during the past quarter of a century, the "old lady of Threadneedle Street" is, to all intents and purposes, weaker than she was in 1876. Those who are sufficiently conscious of fallibility to be tolerant of all opinions may find excuses for these bold critics and their censure of the course pursued by the Governors of the great English bank in the following facts: In 1876, the Bank of England held about \$100,000,000 reserve, and in 1903 it held \$110,000,000. The coin and bullion in the Bank of France have increased, during the same period, from \$425,000,000 to \$700,000,000, of which \$245,000,000 was in gold in 1876, and \$480,000,000 in gold in 1903. The Bank of Germany has increased its reserve from \$120,000,000 to \$235,000,000, and the New York associated banks from \$60,000,000 to \$215,000,000.

That Canadian chartered banks are not insensible to the importance of maintaining strength sufficient for sudden emergencies, is exhibited by the improvement in their holdings of liquid assets during the past twelve months.

Canadian bankers, when visiting the exhibition at St. Louis, will be interested in seeing the contribution of the Bank of New York, N.B.A. A collection of rare and valuable documents forming part of the history of one of the oldest banking institutions in America will be something unique, and ought to attract a lot of attention from bank officials.

**An Interest-  
ing Exhibit**

The collection sent to St. Louis is said to include the Bank of New York's old 1784 ledger, showing Aaron Burr's account; a water-color picture of the old banking building in its present location in 1797, certificate of stock dated May 31, 1792, fac-simile checks of Aaron Burr, Gulian Verplanck and Marquis de Talleyrand, besides old cheques of Samuel Deloplainé, Captain Thomas Smith, Isaac Bronner and a

U. S. Treasury draft on the Bank of New York signed by Alexander Hamilton, dated September 13, 1789.

A collection of extremely interesting old documents could be obtained from Montreal. In the possession of the Phoenix Insurance Company, in that city, is the following curious bill of lading:—

Shipped by the Grace of God, in good order and well conditioned, by Ingalls, Ellice & Co., in and upon the good ship called the "Everetta," whereof is master, under God, for this present voyage, Alexander Patterson, and now riding at anchor in the River Thames, and by God's Grace bound for Quebec and Montreal with convoy.

N. No. 1-17. Seventeen Cases containing Ornamental Stone Work for a pillar to be erected at Montreal to the memory of the Immortal Nelson being marked and numbered as in the margin, and are to be delivered in the like good order and well conditioned at the aforesaid port of Montreal (the Act of God, the King's Enemies, Fire, and all and every other Dangers and Accidents of the Seas, Rivers, and Navigation of whatever nature and kind soever excepted) unto Messrs Forsyth, Richardson & Co., or to their Assigns. Freight for the said goods being paid here. With Primage and average accustomed. In witness whereof the Master or Purser of the said ship hath affirmed to Three Bills of Lading all of this Tenor and Date; the one of which Three Bills being accomplished, the other two to stand void. And so God send the good ship to her desired port in safety. Amen.

Dated in London, 20th March, 1808.

Contents unknown to Alex'r Patterson.

The pillar erected at Montreal "*to the memory of the immortal Nelson*," is still standing in Bonsecours Market, in that city, and cannot well be removed to St. Louis. But a picture thereof and the original bill of lading would possess historical interest for the British born.

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Although it may be almost impossible to deceive the trained bank teller with spurious silver, there can be no harm in warning our readers against the counterfeit half dollars, with which New York is said to be flooded. In size, weight and appearance, they are admitted to so closely resemble the genuine money, that it is difficult to detect the difference. The marked variation from the genuine American half dollar, with which coin Canadians are much too familiar, is said to be some roughness in the work surrounding the head, which can be ascertained by rubbing the coin between the finger and thumb. A general caution to the public, if posted in the branch banks in the Northwest, would be a safeguard.

Spurious  
Silver

A leading Chicago banker, Mr. James B. Forgan, upon his return to that city a week ago, from an extended trip in the Eastern States is thus reported, in an interview published in a financial paper:—"Business is quiet and the situation dull....." with spring business coming on, there is likely to be a little improvement." The same gentleman remarked that he had never seen New York so dull.

Altogether the signs in the South may well be noted by our own people.

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Interesting as bankers may find the exhibition of old books loaned by the Bank of New York for the St. Louis Fair, the addition to the American collection of the old cheques and ledgers belonging to Coutts' famous private bank, now about to move into new quarters on the Strand, would add greatly to the attractive display of autographs of celebrated men. Members of the British royal family have transacted business with Coutts' bank since the reign of George the Second, and among the many notabilities who have had accounts with the bank we find Nelson, Wellington, Pitt, Dickens, Scott, Macaulay, and a multitude of lesser lights in arms, art, industry and science.

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The Bankers' World's Fair National Bank! Such is to be the name of an institution chartered by the United States government for a brief business career within the grounds of the St. Louis Exhibition. Some idea of this enterprising enterprise may be gleaned from the following account of the purpose of this bank's founders, published in *The Chicago Banker*:

To facilitate the handling of large sums of money during the exposition period seventeen of the largest banks and trust companies of St. Louis have organized the Bankers' World's Fair National, chartered by the federal government and capitalized at \$200,000.

The specific purpose of the bank is to have a convenient depository for the government funds, the gate receipts of the World's Fair and the concessionaires, and for all those who wish to deposit their money for safe keeping. The bank will cease to exist with the close of the exposition.

The stock in the bank is divided pro rata among the seventeen banks and trust companies, comprising the largest financial institutions in St. Louis, that have joined in organizing it. The insti-



tution will be under the general supervision of a board of directors, each bank and trust company being represented by one of its officers or directors.

The bank will be a depository only. No loans will be made. The money deposited will be distributed pro rata.

As a convenience for the general public, the World's Fair and the concessionaires, the bank will be kept open until midnight. The clerical force will work in two shifts, part of the force having sleeping quarters on the second floor of the bank building, which will be located in the closure near the main entrance, the structure facing the Cascades.

In connection with the bank there will be a safe deposit company, organized under the laws of Missouri and capitalized at \$100,000. This company will have the same board of directors as the bank, but will be under a different organization. It will have a large fireproof vault and 2,500 deposit boxes and will be open day and night.

The idea is not new with our neighbours, as a similar scheme was organized during the exhibition at Chicago.

A costly game! — not to speak of its consequences.

—Ruskin.

The reduction of its dividend by the Bank of England has not excited much remark in financial circles because of the remarkable fall in the value of British government securities. It is generally admitted that the enormous expenditure of money during the prosecution of the war in South Africa is largely responsible for the depression in the London money market, and the present low price of Consols.

**The Cost of  
War**

The restless feeling now prevailing in business and financial circles on both sides of the Atlantic is the aftermath of the struggle in South Africa, and the prospect of the present war between Russia and Japan being of long duration.

Industrial depression almost invariably follows war, and with the trade and commerce of the far East disturbed, and uneasiness prevailing in every capital of Europe, the outlook calls for the utmost prudence on the part of those who control the monetary situation.

War is, indeed, "a costly game." Yet the large majority of those who live beyond the actual radius of the scene of combat pass the dull season excitedly perusing the truthless telegrams containing vivid if unvarnished news from the battle field, oblivious to the inevitable consequences of the waste of life and treasure.

The curious advertisements occasionally inserted in country papers by branch managers of Canadian chartered banks, whose desire to secure deposits sometimes deadens their sense of banking propriety, add interest to a bill which is reported to have recently passed the Iowa House of Representatives. The Governor of the State having strongly advocated compulsory payment of interest on State funds held by banks, the bill in question was made law by a vote of 61 to 16, and the State Executive Council has been asked to fix the rate of interest to be paid by the banks.

When will legislation be required in Canada to compel our banks to pay interest on deposits lodged with them by a province or a municipality? The competition for deposits cannot be very keen among the banks of Iowa.

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American bankers are being interviewed regarding a bill by which it is proposed to legalize loans by national banks on real estate security. It is needless to say that American bank officials are almost unanimous in wholesale condemnation of the scheme as one that would mean widespread disaster to the banks and ultimate ruin to the general business interests of the country. A Chicago banker says that, if the bill is even passed, the privilege of advancing on real estate should be "restricted to the national banks in small towns surrounded by farming districts."

Surely the Congress of the United States can be relied upon to protect the banking system of a great country against the passage of such a dangerous bill.

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The members of the Canadian Bankers' Association who have so frequently, even if vainly, urged their colleagues to protect the minor profits of the institutions they control, will heartily endorse, even if they lack the courage to follow, the action of the banks of Greenfield, Mass., who are said to contemplate charging a fee to keepers of current accounts whose balances are not

a source of any profit to their bankers. A committee has been appointed to determine the cost of the time and stationery given to customers of the class referred to.

Canadian banks are not free from customers whose accounts are not only unprofitable, but are cordially condemned by all observant ledger-keepers.

J. T. P. K.

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### NEW BOOKS.

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A book has recently been published on a subject of considerable interest to the business community and more particularly to bankers. The author is Mr. W. R. P. Parker, of the Toronto Bar, and his subject is "Frauds on creditors, and Assignments". The work is a somewhat extended treatise, and in it, a large number of the Canadian cases bearing upon the subject, (with the exception of these decided in the Province of Quebec) and in addition the important and leading English cases are fully cited and discussed. Nor has the author confined himself to these fields of judicial decision, but also refers to a number of leading American cases and discusses their application to and bearing on the provisions of the Statutes of the several Provinces of Canada. Mr. Parker's work deals more fully and completely with the subjects named than any previous work produced by a Canadian author—certainly in recent years, and will undoubtedly prove a most valuable and serviceable adjunct to the library, not only of the judge and the lawyer, but also of the banker. The book has undoubtedly entailed an enormous amount of work and its general arrangement, including index, citation of cases, type and references, is most complete and accurate. The author, by incorporating the Statutes of the various Provinces of Canada relating to Fraudulent Preferences and Assignments, has made a most useful edition to a very complete work.

## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

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### THE CRISIS OF 1857-58.

AS usual, considerable light upon the practical tendencies of banking in Canada is to be derived from a study of contemporary banking practices in the adjoining states of the American Union. The course of speculation, like that of empire, has always had a westward trend. While the eastern states were gradually settling down to something like a stable and conservative system of banking, the newer states of the middle west, from the great lakes to the Gulf of Mexico, were the happy hunting ground of the advocates and practitioners of all manner of wild-eyed finance. The eastern banker, operating in the midst of a permanent business community having much ready wealth and many vested interests at stake, was a cautious, critical and conservative financier. He responded readily enough to the sight of good, reliable securities, but was stoically indifferent to vague visions of wealth from wholly untried enterprises. The western banker, on the other hand, belonged to quite a different type. He was apt to be a visionary enthusiast, who saw in paper money a magic and beneficent power, under whose adroitly wrought spell nature could be forced to yield her hidden riches. He might, on the other hand, be a hard and often not over scrupulous speculator, who

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#### Chief sources:—

Journals of the Legislative Assembly, and of the Legislative Council of the Province of Canada, with Sessional Papers. 1857-59.

The Provincial Statutes of Canada, 1857-59.

Copies of various bills as presented to the Legislature, 1857-59.

A History of Banking in the United States. By John Jay Knox, New York, 1900.

*Hunt's Merchants' Magazine and Commercial Review*, New York, 1854-59.

*The Canadian Merchants' Magazine and Commercial Review*, Vols. I-V, Toronto, 1857-59.

*The Globe*, Toronto, 1856-59.

*The Leader*, Toronto, 1858-59.

saw in the paper issues of a bank the means of rapidly acquiring riches, since they afforded the ready means of taking advantage of the rapid rise in values which characterized the free swing of a frontier boom. Thus the issue of paper money at once facilitated the business of exchange, stimulated the speculative spirit, and enabled those who controlled it to reap large profits.

The speculative profits, however, were largely in paper money, bank credits, or inflated real estate. When, therefore, the period of over confidence had run its course, there was a double collapse; a collapse in the value of all kinds of property, and a collapse among the banks whose airy credits had fed the inflation.

In many western districts it was a question much in doubt, as to whether, after the collapse of a speculative boom, the people left with the real estate on their hands were or were not worse off than those who held the money or other bank credits for which it had been sold. On the whole, in the newer states, it would appear that there was often little to choose between these alternatives, so that when the bubble of speculation had burst the people of a western community were apt to find themselves occupying much the same relative positions as before. At the same time not all the advances were lost, for the undoubted stimulus which hope and confidence gave to activity and enterprise, caused a rapid development of the natural resources of the country. Thus, most of the actual work done in the development of the new regions remained to the good and furnished a basis for a more normal expansion later on.

As a result of the numerous failures of the state banks there naturally arose much discussion as to the best system of banking, and the newer states sought to reproduce those features which had proved the most stable and successful in the older communities. On this principle the free banking system of New York State found several disciples in the west. Among the imitators was Michigan, yet, even in the west, Michigan was notorious for the crookedness and instability of its banking institutions. Neither did the copying of eastern systems save the banks of Illinois, Indiana, or Wisconsin from an evil reputation in the financial world. Indeed the varied experiences of the different states of the Union proved beyond the slightest doubt that the particular system of banking

adopted by any community does little towards insuring the security of its banking practice. Without denying the relative efficiency of different systems, security obviously depends mainly upon the honesty and prudence with which a system is worked. Further, in earlier American experience it may safely be said that lack of prudence proved much more disastrous than lack of honesty.

In western Canada during the fifties, the speculative forces operating so strongly in the United States found a ready echo with all the sequences both good and bad.

Another aspect of the American system, which, as already noted, had long had its effect upon Canadian banking, was the prevalent attitude towards note circulation. It was the great object of every banker to get the maximum quantity of notes into circulation and to keep them afloat as long as possible. In granting discounts and issuing notes, therefore, the banker sought to place his notes where they were least likely to come back upon him in inconvenient numbers, and this was more particularly the case when symptoms of stringency appeared in the money or exchange market.

In communities where very few people had idle or surplus capital to deposit in banks, the banks of necessity operated almost entirely on their own capital and the issues of paper money. Hence, while the banks were willing enough to receive their own notes, or preferably the notes of other solvent banks, in payment of obligations to them, they were very anxious to avoid being called upon for the redemption of their notes in specie. Many were the devices resorted to in order to render it as difficult as possible to return notes for redemption. A favourite method at this time, especially among new and speculative banks, was the placing of the head office in some small town as remote as might be from the chief channels of trade. Ultimately this led to the issue of the notes in some distant state, care being taken not to circulate many of them in the immediate vicinity of the place of issue and redemption. Thus, even in those days, the state of New Jersey rose to fame as the home of many chartered banks whose issues were intended almost entirely for circulation in such states as Ohio, Illinois and Wisconsin.

We have seen that during the period of bank suspension in 1837-38, numerous so-called private banks sought to make Canada their head quarters, though the notes which they issued

were intended for circulation in the United States. In the period with which we have now to deal, more elaborate attempts were made to find in Canada a safe shelter for American speculative note issues. For years the leading banks had shown a marked anxiety to share in the supply of a circulating medium for the neighbouring states. Their previous record for stability had greatly favoured the Canadian banks in extending the range of their note circulation, yet they were none the less indignant when in times of stringency their notes were returned for redemption.

In surveying the situation on both sides of the international boundary, just before the crisis of 1857-58, we observe that practically all of the forces which were at work in the adjoining American states were more or less operative in Canada as well. The rapid multiplication of banks, the speculative use of their accommodation in connection with railroads and real estate, the devices adopted to maintain the notes in circulation, and many minor characteristics were all recognizable in Canada, though in much less extravagant forms than in some of the western states. As in the United States, however, the Canadian west was much more speculative and reckless than the Canadian east.

One of the last remonstrances directed by the Lords Commissioners of the British Treasury against the Canadian banking policy, was connected with the new consolidated acts relating to the Bank of Montreal, the Commercial Bank, the Bank of Upper Canada, and the acts incorporating the various new banks of 1856. It was pointed out by Mr. Hincks' old antagonist, Sir C. E. Trevelyan of the Treasury Department, that while one clause of the bank charters sought to confine the banks to the legitimate objects of banking and to prevent them from holding real estate or merchandise, yet the object of this clause was likely to be very largely defeated by the permission given to receive the pledge of such property as collateral security, and to take and hold it indefinitely should it be forfeited. The effect of this would be to make it quite possible for the banks to grant loans virtually upon the strength of real estate, or merchandise. Their Lordships suggest, therefore, that any lands or other property coming into the hands of a bank, through its being taken as collateral security, should be disposed of within a limited time. Replying to this communication, on March 12th, 1857, Mr. Cayley expressed his

absolute confidence that the clause in the bank charters forbidding the banks to grant loans on the security of goods or real estate was absolutely effective. Further, owing to the peculiarities of the Canadian real estate market, it would be quite inexpedient to force the banks to dispose, within a specified time, of any property which might come into their hands as forfeited security. Yet while Mr. Cayley was thus strongly expressing his confidence in the efficiency of the bank acts, several of the most prominent banks were heavily involved on the security of land speculations, as was abundantly revealed when the crisis was reached, in the latter part of the same year.

With the granting of every new bank charter Mr. Cayley and his associates became ever more careless, both as to the number of charters granted, the persons to whom they were granted, and the use which might be made of them. Thus very sound and very worthless institutions received equal consideration at the hands of the Government.

In 1857 the Ontario Bank received its charter. It was popularly known as the Bowmanville bank, as it was in that town that it had its birth and for some time its head office. The moving spirit in its establishment, and its first president, was the Hon. John Simpson, who was also connected with the Bank of Montreal. The capital of the bank was £250,000, £25,000 of which was to be paid in before the bank might begin business, and the whole of the capital was to be paid up within five years. The charter contained the usual conditions of the period. The bank came into existence as a strong, well-managed and conservative institution. Its first board of directors consisted of Hon. J. Simpson, A. Simpson, J. Burk, Jas. Dryden, Thos. N. Gibbs, W. McIntosh and Jas. Mann.

An institution of quite another stamp was the International Bank of Canada, which also received a charter during 1857. This was granted on the petition of Wm. Fitch and others who were anxious to establish a bank in the village of Cayuga, in the county of Haldimand. Its authorized capital was £250,000, of which £50,000 was to be subscribed and £25,000 paid in before the bank began business. Three years might then elapse before another £25,000 was paid in. Otherwise its charter was of the usual type. The small amount of paid-up capital required in the case of banks whose head offices were established in country villages, was justified on



the ground that a smaller amount of accommodation would be required in those districts. However, there was no guarantee that the notes of such banks were intended to serve only the needs of the districts in which their headquarters were placed. On the contrary, as already noted, the immediate neighbourhood of a certain class of banks was the one district in which it was not desired that the notes should circulate.

The following session the International Bank of Canada obtained an amendment to its charter, giving it four years in which to pay in the second £25,000 and permitting it to change its chief place of business from Cayuga to Toronto, or any other place which the corporation might choose. This, however, would not prevent the issue of most of its notes at Cayuga, for, by a clause in the act of incorporation, notes were to be presented for redemption at the place of original issue, as stamped upon them. The Colonial Bank had been permitted to go into operation in Toronto on a paid-up capital of £25,000. But this was the first instance in which so small a capital basis had been admitted in the case of a city bank. By a second amendment to its charter the Colonial Bank obtained the liberty to change its head office from Toronto to Montreal, if thought desirable. Thus both the Colonial and International banks obtained a sort of roving commission for their head offices. Their subsequent careers lent much colour to the suspicion that they were simply practising a well-known American device in order to secure the maximum of note circulation with the minimum of note redemption. However, their charters were as freely granted as those of any other banks, and as freely amended to suit their convenience.

Another bank charter passed during the session of 1857, was that of the Brantford Bank. For some reason not quite obvious, this institution had been denied the common boon during the two previous years. Its capital and general conditions were practically the same as those of the Colonial and International banks.

As if to prove his confidence in the unlimited capacity of the country to find capital for new banks, and to furnish them with business, Mr. Cayley, the Minister of Finance, assisted by some of his colleagues and others, proceeded to establish a new bank for themselves. This was the Bank of Canada, which received its charter during the session of 1858.

Its leading promoters were Hon. Wm. Cayley, Hon. J. C. Morrison, Angus Morrison, Hon. John Ross, Wm. H. Boulton and Frederick Cumberland, all of the city of Toronto, where the bank was to have its head office. The capital of the bank, as stated in the newly adopted monetary standard, was to be \$3,000,000, in shares of \$50 each. The sum of \$250,000 was to be paid in before beginning business, and another \$250,000 within eighteen months thereafter. Otherwise the act of incorporation was of the usual nature.

On petitions from the county of Compton, the town council of Sherbrooke, and various parties in the Eastern Townships, the charter of the Eastern Townships Bank was amended during the session of 1858. Its capital was reduced to £100,000, or \$400,000, and the bank allowed to commence business after \$200,000 had been subscribed and \$100,000 paid in. During the same session the Zimmerman Bank charter was amended, its name being changed to The Bank of Clifton, and its notes, whether issued at the head office or not, to be payable only at the place at which they were dated.

Though the general features of all the bank charters passed during the fifties were much the same, yet, as was pointed out by a writer in the Upper Canada Law Journal, there were several important differences. In the matter of the liability of the shareholders there was considerable variety in the wording of the different charters. Thus in some charters the shareholders were made liable for double the amount of the capital subscribed, whereas in others they were liable for only double the amount of capital paid in. The writer comments upon the laxity with which the charters were drawn up, and anticipates possible trouble in future from the lack of uniformity.

The increase in the banking capital of Canada between 1850 and 1856, was not in itself out of proportion to the business of the country. Indeed an increase in *bona fide* bank capital was greatly needed. It was constantly asserted by the financial and commercial interests of the country that British capital was prevented from seeking investment in Canadian banks owing to the restrictions of the usury laws.

The function of banking capital in the business of Canada in those days was not at all what it is to-day. In the first place, as indicated in another connection, exchanges were effected and payments made much more completely through

bank notes than afterwards. At present a very large proportion of the business payments of the country are made through the mechanism of the cheque and clearing system which reduces the greater part of the work of exchange to the simpler elements of book-keeping. Another consequence of the modern system is, that the discount and deposit operations of the banks offset each other to a very large extent. But during the expansion of the fifties discounting by the banks meant, very largely, the placing of their capital and notes at the disposal of their customers. The banks were thus left with little in the way of reserve securities. In the absence of sufficient fluid capital, and with a pressing demand for accommodation, there was a strong temptation to strain the note issuing privileges of the banks to their utmost.

Even where the note issuing power was very liberally employed, if it had been in the actual service of exchanging goods for goods, in other words in facilitating legitimate production and consumption within the country and the normal exports and imports, there could be little danger of any collapse. Money not being called for beyond the actual business needs of the time, neither the interest nor the necessity of anyone would lead to a call upon the banks for specie. But, with a large speculative element in the business of the country and a liberal discounting of the future, which, however, made no returns for the present, the situation of the banks was of quite another character. Again, there was as yet little or no sense of common interest among the banks, which might enable them, by mutual assistance, to minimize the effects of a crisis and at least prevent panic. Under the existing circumstances, with a system of exchange mechanism which involved sailing very closely to the wind, there was naturally a constant nervousness exhibited by the banks and a mutual suspicion of one another, which inevitably tended to increase financial stringency whenever the exchange weather-glass indicated squalls. Almost all of their means being employed in discounting, when danger threatened the banks were forced to greatly curtail their discounts and call in outstanding loans in order to protect their extensive note issues. But, in a country containing few men of independent means, the merchants and others whom the banks had accommodated were just at such times least able, without serious sacrifices, to procure the means of making payments.

In reality, therefore, the banks often propagated the distress which they were seeking to avoid. The condition of the banks in 1850 and 1856 will illustrate the general position:—

	Capital.	Coin.	Notes in Circulation.	Deposits.	Loans.
1850.	\$2,775,880	\$384,111	\$1,309,932	\$1,524,267	\$4,374,898
1856.	\$4,804,768	\$386,410	\$4,199,211	\$2,803,238	\$9,611,315

Here it will be observed, in the first place, that when we deduct one-tenth of the bank capital, which was required to be invested in public securities and which was only available in the extremity of bankruptcy, also the small amount of coin kept on hand, and not all of which was legal tender, the remainder of the capital, notes and deposits were disposed of in the shape of current loans, to the extent of eight-ninths in 1850, and twelve-thirteenths in 1856. Obviously, therefore, the banks must depend almost entirely upon the withdrawal of their accommodation to the public, in strengthening their position. We notice also how largely the note circulation bulks in the working capital of the banks, and how greatly it was increased during the period from 1850 to 1856.

While, therefore, the banks had done their utmost to meet the demands for accommodation, yet, as little margin was left upon which to come and go, both the banks and the country were in a difficult position to meet a crisis. If to this we add the fact that much of the money advanced by the banks, especially in western portions of Canada, was employed in speculative ventures, we recognize the preparation made for the crisis of 1857-58.

Another essential feature of the situation was the fact that the retail merchants of Canada were still in the habit of granting to the farmers long credits of from one to two years, yet few farmers were any longer in such straitened circumstances as to require this indulgence. From very long usage, however, the farmers had come to regard this concession as a sort of natural right. Thus many of them, during the prosperous years of the fifties, instead of paying up their obligations to the merchants, allowed them to run unpaid for the maximum period, while they let out their money on interest, or, under the influence of the speculative fever in real estate, undertook to buy more land. The retailers, with increasing business, were forced to seek accommodation from

the banks, to be frequently renewed, and to stipulate for considerable indulgence from the wholesale dealers, who, in turn, sought increasing assistance from the banks. In the long run all this meant that the farmers paid much more for their goods than would have been required had they met their payments promptly. It also meant that both manufacturers and middle men were unable to realize rapidly upon their outstanding credits, and therefore suffered greatly and complained bitterly when crowded by the banks.

Realizing to a certain extent the difficulties of the banks, while themselves suffering for want of accommodation, many merchants and others were tempted to look with favour upon specious schemes for a more liberal supply of currency, unaffected by the periodic need to starve business in order to strengthen reserves. One of the most popular and most persistent of these schemes at this time, was that advocated by Mr. afterwards the Hon. Isaac Buchanan, of Hamilton. It was to the effect that the Government should issue an irredeemable paper currency, to be accepted, however, for all public dues. This was intended to be used entirely for the convenience of domestic trade. Very naturally it was associated with a policy of protection against foreign imports, for indeed nothing could be more admirably calculated to discourage the sale of foreign goods than the necessity, failing some form of barter, to accept for them an irredeemable currency. This plan, which under various minor modifications long found numerous adherents among the Canadian people, was known in later days as "the rag baby" currency policy.

The estimation in which the better known Canadian bank stocks were held as a form of investment before the period of the crisis, is indicated by the range of the prices of such stocks during 1855-56. During these years Bank of Montreal stock ranged from 11 to 20 per cent. premium; Commercial Bank from 10 to 14½ per cent. premium; City Bank and Banque du Peuple about par, and Bank of Upper Canada from 2 per cent. premium to 4 per cent. discount. Incidentally we observe that, notwithstanding the bold front still carried by the Bank of Upper Canada, its real position of growing weakness was reflected in the price of its stock.

The various banks still declined to accept their own notes at par where exchanges between the points of issue and of presentation were adverse. The rate of exchange was usually against Western Canada, as it had always been. While the

notes issued by the various branches of the Bank of Montreal or of the Bank of British North America in Eastern Canada, were accepted at par at all the branches of those banks in Western Canada, yet the issues of the branches in Western Canada were at a uniform discount of one-quarter per cent. in Eastern Canada. Similarly the issues of even the head offices of the Bank of Upper Canada and the Commercial Bank, were at a discount of one-quarter per cent. at their branches in Eastern Canada. Further, the issues of the branches of the Bank of British North America in the lower provinces, as at Halifax and St. John, were at a discount of five per cent. at the branches of the same bank in both Eastern and Western Canada.

We have noted the general conditions in the United States and Canada which had prepared the way for a severe financial crisis, should any serious reaction take place in the general prosperity of those countries. As far as Canada and the adjoining American states were concerned, the immediate occasion of the depression arose in Britain. The extensive reaction there, which followed the close of the Crimean war, caused at once a fall in the demand and price for grain and other trans-Atlantic produce, and a great falling off in the stream of British capital which for some years had been flowing into the larger enterprises of Canada and the northern states. The conjunction of a tight money market, a poor harvest, and a fall in the price of grain, naturally paralyzed speculation in land and led to a strong reaction in that important field. By the middle of 1857, and before the actual crisis occurred, land values had fallen twenty-five per cent. and the anxiety to sell was rapidly increasing with corresponding decline in the zeal to buy.

The leading Canadian banks in their annual statements in the spring of 1857 sounded notes of warning and themselves prepared to meet trouble by severely restricting their operations. This led to a prolonged fusillade of criticism on the part of the merchants and others, on whom the pressure ultimately fell. They were ground, as one of them complained, between the upper mill-stone of bank restriction and the nether mill-stone of slackening markets and paralyzed collection.

The uncertainty of the financial situation was greatly aggravated, during August, by the discovery of several frauds and defalcations in connection with some of the Canadian

banks. Those which created most excitement throughout the country were the frauds connected with the government agency of the Bank of Upper Canada at Toronto, and the embezzlements of the agent of the Gore Bank at London, who was also treasurer of the county and misappropriated some of its funds as well. In each case several persons were involved, the funds having been employed in the prevailing land speculations. Another incident of the land boom was the revelation of serious defalcations and irregularities in the Crown Lands Department. These revelations and others of a minor nature afforded painful evidence to the public of the effects of the growing tendency to make haste to be rich engendered by Canada's first great speculative era.

Early in September the crisis had reached the panic stage in the United States, and was marked by the wholesale suspension of specie payments. In Canada the crisis was not so acute and was marked chiefly by the bankruptcy of a good many private individuals, especially in the western part of the country. The Canadian banks, on the other hand, by their rigid methods of restriction managed to save themselves, for a time at least, and avoided suspension. That their policy was ultimately for the benefit of the country, and hence of the banks themselves, is more than doubtful. The effects were soon revealed on a considerable scale in connection with the annual moving of the crops. Owing to the banks refusing to afford accommodation which involved any considerable issue of notes, the produce merchants, whose trade required the command of large sums in bank notes, found themselves deprived of the customary means of doing business. The result was that during the autumn of 1857 the usual movement of the crops could not and did not take place. The farmers could not meet their obligations to the retail merchants, and these could not pay the wholesalers, importers and manufacturers. Thus the policy pursued by the banks resulted in largely paralyzing the trade of the country and preventing the normal processes which alone could make for recovery. It was akin to the practice of keeping a bankrupt in prison till he had paid his debts, instead of keeping a check on him while he was incurring them.

Without saying anything in defence of the speculative boom which preceded the crisis in the United States and Canada, yet, once it had been precipitated, it must be admitted that the temporary suspension of specie payments in the United States was the lesser of the alternative evils which

confronted the banks. It at least permitted the continuance of the legitimate trade of the country, and thus facilitated the earliest possible recovery of normal trade conditions, and the early resumption of specie payment by the sound banks, without an abnormal restriction of their discounts. During this same period of crisis the charter of the Bank of England was suspended for a time to prevent a worse fate, not for the bank, but for the country. As a matter of fact though the crisis was much more severe in the adjoining states than in Canada, and the bank suspension quite general, even in New York State, yet the recovery was much more rapid than here, and the ultimate loss to the country much less. At the same time the more speculative banking institutions of the newer western states, being on an unsound basis in any case, passed into bankruptcy, suspension or no suspension.

It is one thing, however, to admit that the suspension of a bank may be expedient under exceptional circumstances, and quite another to recommend it as a definite and conscious policy of finance. The Quebec Board of Trade, recalling the suspension of the banks in 1837, passed a resolution setting forth the difficulties of the present situation and expressing the unanimous opinion that, though perfectly solvent as proved by the government returns, the banks of the city should suspend specie payment in the public interest, in order to prevent their reserves from being drawn out and sent to the United States. This resolution was transmitted to other Canadian boards of trade, but the work of restriction had already been accomplished and the banks were quite able to hold out.

Much more to the point was the remonstrance of several leading journals as to the policy of a war of all against all, then prevalent among the banks. They were urged to adopt a system of co-operation, or at least to come to a mutual understanding which would prevent their constant raids upon each other's reserves which was one of the chief causes of their reluctance to extend their accommodation. It was pointed out that since Canada had not, as some other countries, large supplies of money outside of the banks upon which to draw in times of crises, it was practically entirely dependent upon its banks for the supply of a circulating medium. The banks, therefore, should recognize that they have public duties to consider in addition to their own private interests. Appa-



rently as the result of the commercial clamour, backed by the newspaper agitation, the Toronto Board of Trade, about the middle of October, 1857, took steps to bring about some understanding among the banks established in that city. The movement was so far successful that a conference was held by representatives of five banks with a view to devising some means of settling balances without drawing specie from each other. As a temporary arrangement it was agreed to accept exchanges on London in payment of the balances at monthly settlements. To insure a satisfactory arrangement, however, it was felt that it would be necessary to secure the co-operation of the leading banks of Lower Canada. An appeal was accordingly made to the Montreal Board of Trade to secure the co-operation of the banks in that city, but without success.

With little modification the stringency continued. At the close of October, 1856, the circulation of the Canadian banks amounted to \$14,616,899, whereas at the end of November, 1857, it was only \$9,866,435, a shrinkage of one third in twelve months. As a result of the refusal to grant discounts which involved the issue of notes many labourers were thrown out of employment, millers and grain buyers were idle, and the whole of October passed without any considerable quantity of grain being brought to market. Yet, as everybody recognized, the only possible relief lay in the marketing of the chief produce of the country. A similar policy was being pursued by the banks of the Maritime Provinces. There, too, they were urged to come to a mutual understanding, or to suspend specie payments, in order to be able to afford relief to tradesmen and others. In Canada the stringency relaxed so slowly that the depression continued throughout the year 1858 and greatly affected the revenues of the country, leading to the adoption of new fiscal expedients, especially the imposition of a revenue tariff upon British as well as foreign goods.

During this period Mr. Galt succeeded Mr. Cayley as minister of finance. Recognizing the unsatisfactory features of the complete dependence of the country upon the banks for the means of exchange, Mr. Galt immediately began to lay plans for the unification and control of the banking system upon the basis of a government bank of issue. This was very similar in outline to the plan brought forward by Lord Sydenham. However, Galt's scheme was still in embryo. His first move was to secure the appointment by the legislature of a

committee of eight members to consider the whole subject of the banking and currency of the Province. This proposal was adopted by resolution on March 4th, 1859.

In the mean time the process of chartering new banks continued as before. During the session of 1859 the following prospective banks were seeking charters; the Bank of Western Canada, La Banque Nationale, The Chartered Bank of Canada, The Provincial Bank of Canada, and The Union Bank of British America. The first three ultimately received charters, the second under the English title of The National Bank though it was a French Canadian institution with its head office at Quebec. The name of the Chartered Bank was also changed to that of the Royal Bank of Canada.

The Provincial Bank of Canada would undoubtedly have received a charter but for the timely revelations of *The Globe* as to its speculative character, and the obvious purpose of its promoters to use it chiefly as a basis for the issue of bank notes to be employed in the western states. The bank was promoted by one Geo. W. McCallom, whose record as a speculator in western banks, especially in Ohio, *The Globe* had fully unearthed. It was then discovered that he had been the chief promoter of the St. Francis Bank at Stanstead. After getting the bank established and chartered he endeavoured to induce the directors to hand over to him, by power of attorney, the entire management of the institution. The notes he intended to employ in the western states. The directors, however, declined his proposals. He then started a bank of his own at Stanstead under the Free Banking Act. This he named the Provincial Bank. It was based upon Municipal Loan Fund Securities of Lower Canada, obtained when these were about fifteen per cent. below par. It was this bank which, with the favour of Messrs. Cayley, Galt, and others, he hoped to convert into a regular chartered bank and thus escape the restrictions of the Free Banking law. But, his plans having been exposed, his hopes were blighted.

Throughout the country there was growing discontent with the banking system as then constituted. The merchants complained of the disturbing changes from competitive liberality to selfish stringency in the granting of discounts. Next, the public became alarmed at the increasing evidence of laxity in the granting of charters. *The Globe* in particular led a vigorous crusade against the Government for its careless

methods of multiplying bank charters. In the Legislature, also, Mr. Geo. Brown, with his accustomed vigour, attacked the Government for its bank-charter policy. When the bill to charter the Bank of Western Canada came up he declared that such a bank was entirely superfluous. In the first place the district round Niagara, where it was to be established, was already well supplied with banks, and in the second place there were about a dozen banks lately chartered whose capital was far from being taken up, hence there was abundant scope for capital seeking investment in banking. Mr. Galt acknowledged that greater care should be exercised in granting bank charters, but thought the danger would be removed if regulations were adopted insuring the *bona fide* payment of subscribed capital; as, for instance, by requiring it to be deposited in one of the older chartered banks, and stipulating that the proposed bank should be organized within a year, in default of which the charter would be forfeited. With these additional conditions he favoured granting charters to the Bank of Western Canada and the National Bank. Brown still maintained his opposition to the new charters, and in a second speech on the Western Bank bill referred to the restrictive measures adopted in New York State and other eastern states to prevent the establishment of speculative banking institutions. He indicated his suspicions that the promoters of banks intended to operate in the western states were seeking the shelter of Canada where their operations were favoured by the lax system of granting charters. The connection of members of the Legislature with some of these questionable new ventures was strongly condemned.

Another outcome of the multiplication of bank charters was the beginning of a movement to trade in them. Thus the Colonial Bank charter, which had been dormant for some time, was purchased early in 1859 and notes were being freely issued under its authority. No one seemed to know its directors or chief officers, and it was impossible to tell how much of its professed paid up capital had been actually paid in cash.

Meantime the report of the Committee on Banking was made public, early in June, 1859. The report itself was very brief. Beyond recommending the continuation of the investigation, it simply drew attention to the fact that there was a strong concurrence of opinion among the chief officers of the banks that the present charters were defective, as safeguarding the paper circulation of the Province. But the evidence pre-

sented in connection with the report was quite voluminous. It was contributed by the officers of the various banks in the shape of replies to a definite series of questions.

In reply to the question as to the adequacy of the safeguards of the existing system, the cashier or manager of the Bank of Montreal gave it as his opinion that the system was too lax. It allowed the creation of banking capital far beyond the needs of the country, and permitted the banks to begin business upon too small a paid up capital. He pointed out that, under the existing charters, the investment of \$10,000 in public debentures would satisfy the government conditions on what might be only a nominally paid up capital of \$100,000, but which would enable the bank to issue notes to the extent of \$110,000. He considered it a weakness that there should be no obligation on the part of the banks to hold specie as a reserve for their note issue and deposits. Further, it should be made necessary for the banks to publish periodically the names of their shareholders or partners, in view of the public dependence upon unpaid stock and the double liability of the shareholders.

The representatives of most of the other banks agreed with the manager of the Bank of Montreal that the system of granting charters was too lax, especially in the matter of insuring the *bona fide* payment of the subscribed capital. Representatives of some of the smaller of the new banks had no fault to find with the system. The cashier of the Bank of Toronto in some very sensible remarks, criticised the policy of allowing the debentures purchased by the banks, to the extent of ten per cent. of their capital as required by the government, to remain in their possession, since they might be pledged for loans and their value as security for creditors lost. He objected also to the system of allowing notes to be issued to the extent of the debentures and specie reserves, in addition to the paid up capital, because these investments, being part of the paid up capital, thus supported a double issue of notes. Further, he urged that a considerable portion of the stock of every bank should be held in the Province to insure the efficiency of the double liability clause. This, however, would obviously be a difficult clause to enforce. In reply to questions as to the minimum amount of capital which ought to be required in the case of chartered banks; the larger banks thought \$1,000,000 a proper minimum, with from one-fourth

to one-third to be paid up before starting business. Others thought that \$400,000 might be admitted in the case of country banks, one-half at least to be paid up. On the subject of the kinds of securities upon which banks might be permitted to lend, it was quite generally held that, in addition to the securities then permitted, bills of lading and other certificates of goods in transit, as railroad receipts, might be added. A few favoured a still wider range of securities. Practically all of the banks were in favour of the abolition of restrictions on the rate of interest, this involving a general repeal of the usury laws.

The representative of the Bank of Montreal held that the range of note issue permitted in the charters of the existing banks was too great. He considered that the specie reserve to be maintained by the banks should be one-fourth of the note issue and one-seventh of the deposits. The banks should also keep funds in the hands of their New York and London agents. Most of the other banks agreed on one-fourth as a proper reserve for note issue. The Bank of British North America thought that the reserve should amount to one-third of the notes and one-sixth of the deposits. A few banks inclined to smaller reserves, such as one-fifth, or even one-tenth on the note issue. A couple of banks thought the note issue should not exceed two-thirds or three-fourths of the paid up capital of the bank.

Practically all of the banks agreed with the representative of the Bank of Montreal in considering that in the settlement of balances between banks specie alone should be used, as it was necessary to keep a check upon imprudent banks in their tendency to overissue. Regret was expressed that bank notes were then issued in Canada which the other banks could not accept.

Almost all of the strong banks were opposed to an increase in the legal tender range of silver, and saw no necessity for the issue of a Canadian gold coinage. The Bank of Upper Canada, however, and the City Bank favoured a Canadian gold coinage for the purpose of discouraging the return of Canadian bank notes from the adjoining states for redemption in specie.

In answer to questions as to the causes of the financial crisis, and the possibility of a remedy by legislative action, the usual reply was that the crisis was due to speculation and

over trading. These in turn were stimulated by the investment of large amounts of English capital and the high prices received for produce which encouraged extravagant spending. Inflation might be checked by a better regulation of the banks and a more conservative management of them.

Though, as was pointed out at the time in some criticisms of this report, the bankers had dealt with the banking system and the crisis almost entirely from their own point of view, yet their analysis of the situation and of the weakness of the government bank policy, was well founded. The system undoubtedly lacked guarantees as to the fulfilment by the various banks of the conditions of their charters.

Though the general conditions of trade began to improve during 1859, yet the banking situation remained in rather an unsettled state. This was due, in a measure, to the large direct losses sustained by most of the banks, and to the difficulties which some of them experienced in financing the load of collateral securities, largely in real estate, which they had to take over from their debtors. The annual reports of the banks in the spring of 1859 showed that most of them had been compelled to appropriate larger sums to meet losses than during the previous year, in which the sharper form of the crisis occurred. In June, 1858, the Bank of Upper Canada set aside \$220,000 for losses, while in June, 1859, it had to appropriate a further sum of \$400,000 for the same purpose.

In the latter part of 1859, the economic prospects of the country were steadily improving, when there suddenly fell a bolt from the blue. On the 27th of October a note appeared on the door of the head office of the International Bank at Toronto saying that the bank would suspend business for a few days. This produced great popular excitement, as the obligations of the bank were chiefly in the shape of note issues. The Colonial Bank being of the same type, a special run upon it immediately ensued, and after a couple of hours trial it too suspended, greatly increasing the excitement. The two banks had between \$200,000 and \$300,000 of their notes in circulation, though apparently the majority of them had been employed in the United States. Neither made any attempt to resume business. Though slight runs were made upon some of the other new banks yet none of them succumbed and the acute stage of the excitement passed.

The bank failures led to renewed attacks upon the government for the laxity of their bank policy, and incidentally de-

mands were made for the repeal of the charters of those banks which had not yet gone into operation. The Toronto Board of Trade put itself on record in the following resolution:—  
“Resolved, that in consequence of the failure of the International and Colonial banks, this board feels called upon to deprecate in strong terms the facility with which our Legislature have recently been granting banking privileges, opening as they did a wide field for speculators without either character or capital to engage in banking, which cannot fail to operate to the prejudice of the public, and of the banking institutions established in this city, whose ample resources and prudent management entitle them to the confidence of the public.”

Obviously the Government had to do something, and Mr. Galt met the situation by presenting his new scheme for the regulation of the paper currency of the Province.

ADAM SHORTT.

## THE BANK OF ENGLAND RESERVE.

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OPINIONS may differ as to whether London or New York is to be the world's financial centre in the near future. Up to the present, the pre-eminent position of London remains a fact, and this gives to the reserve of the Bank of England an international importance. It is this item in the account made public every Thursday which excites most interest, and that for sufficient reason. As has often been pointed out, the banking interests of the United Kingdom are concerned in the adequacy of the reserve of the greatest bank in the world, as this constitutes the store of cash on which all the credit institutions of the country are more or less, and more rather than less, dependent. The great banks of London not only keep part of their cash funds on deposit at the Bank of England, but are practically dependent on that institution's store of cash for aid in any time of financial pressure. Naturally, the policy of the directors of the Bank of England is made the subject of vigorous criticism. It is pointed out that they owe a duty to the country, which requires that the reserve be maintained at a satisfactory level. It is an obvious reply that the country cannot expect the Bank to bear the whole cost of insuring its business solvency. Various plans have been discussed, especially in the last ten to fifteen years, for distributing a part of the expense of keeping a larger stock of gold in London over the banking community of the country. None of the plans has commanded a sufficiently general support to be put into operation. To some extent, the increase of the amount of cash held by the chief banks, either in hand or at the Bank of England, has contributed to bring about the end aimed at. To such independent efforts, rather than to any common action, such improvement as has taken place in the situation since 1890 has been due. It is worth while enquiring what, if any, advance has been made since that date.

For this purpose, a comparison of some of the features of the weekly accounts of the Bank will be useful. Comparisons with the conditions of half a century ago would not serve to do more than afford a contrast between those times and our own. The following figures are sufficiently effective for this purpose, and cover forty years to date.



## AMOUNT OF RESERVE (in million £).

	1864-73	1874-83	1884-93	1894-1903
Highest.	17.9 (June, 1871)	22.4 (Sept. 1879)	20.0 (June, 1893)	41.0 (Febr. 1896)
Lowest..	.8 (May, 1866)	8.1 (Jan. 1876)	9.3 (Jan. 1890)	15.5 (Jan. 1894)
Average	10.8	13.2	15.2	25.3

From this table several striking facts can be learned. The inclusion of the figures for 1866 brings out the great contrast between the policy of earlier years and that followed since about 1870. Formerly, the reserve approached the vanishing point at times of stress. The steps needed to check its depletion were not taken with sufficient promptitude. Nowadays we find precautionary measures adopted before any very serious inroads have been made on the amount of the reserve. The principal weapon of defence is, as is well known, the discount-rate. When it is raised,—and made effective, should measures be needed to force the market-rate to respond to the rise in the bank-rate,—the results are felt in movements of the foreign exchanges. A force is brought into play which attracts gold to London, and thus replenishes the reserve. Though no rule can be laid down for the bullion movement consequent on a given alteration of the discount-rate, a curious correspondence is noted by Clare, in his “Money Market Primer,” as having been shown in the ten years ending 1890. Taking one year with another, during that time a movement of one per cent. in the rate of discount was found to correspond to a change of a million sterling in the Bank’s stock of gold. As the reserve grew, the discount-rate was allowed to fall, and *vice versa*. This correspondence in average movement is not shown, usually, in particular movements. Nevertheless, the operation of discount-rate movements on the flow of bullion to or from the Bank is quite definite. The conditions of each occasion determine how great the response will be, and, consequently, how large, and how persistent, a movement in the discount-rate is required to protect the reserve.

It is worth noting that the *lowest* figure of the decennium just completed exceeds the *average* of any preceding decennium. The minimum occurred, as is stated in the table, on January 3, 1894. The next lowest figure was

reached on January 2, 1901, and was one million pounds in excess of the average figure of the decennium 1884-93. The average of the reserve for the last ten years is, further, well in excess of the highest figures previously reached. Even if we take the record of the last five years, so as not to include the inflated figures of 1894-1896, the average amount of the reserve exceeds £22,900,000, and is thus greater than the record of 1879, the highest amount previously reached. The record figure of the reserve £40,996,678 (\$199,500,000) was attained on February 26th, 1896. It marks the climax of the long period of dull trade following on the Baring crisis. With the return of activity in business, much of the money which had been lying idle in the years of depression found employment. But the reserve has not been allowed to fall back to its old level. In the years immediately preceding 1890, it had averaged about thirteen million pounds. The lowest average for any of the last ten years was £21,190,000 in 1899. Though the gigantic accumulation of idle funds during the dull years obscure the general trend of affairs, there can be no doubt that, starting from about 1890, there has been a marked increase in the amount of the reserve of the Bank.

But the mere fact that an increase has taken place in the reserve, even though that increase be ten millions sterling in ten years, and the ratio of increase in that interval be that of three to five, as the tabulated figures show, is not a proof that an adequate increase has been made. It is not even a proof that the increase has been proportionate to the business done. Now it happens that a definite proportion of, in round figures, four to nine, has been noted as existing formerly between the reserve and the aggregate deposits of the Bank of England. Taking periods of ten years from the date of Peel's Bank Act, we find the following:—

## RESERVE AND DEPOSITS (in million £).

AVERAGE AMOUNT OF	1845-54	1855-64	1865-74	1875-84	1885-94	1894-1903
Reserve.....	9.2	8.5	11.1	13.4	15.5	25.3
Total Deposits.....	16.6	19.0	25.3	30.6	33.9	50.0
Reserve x 9.....	82.8	76.5	99.9	120.6	139.5	227.7
Deposits x 4.....	66.4	76.0	101.2	122.4	135.6	200.0

This shows, clearly enough, that the proportion of reserve to deposits averaged very close to four to nine for the thirty years to 1885, and was gradually changing for the worse. A slight gain in the following ten years has been followed by a very marked advance in the ten years to the present date. But this latest period includes the years already noted as marked by an unprecedented accumulation of idle funds at the Bank of England. To get a satisfactory measure of the extent of the actual change, if any, in the ratio of reserve to deposits, we may examine the last twenty years a little more in detail. This is done in the following table:—

AVERAGE AMOUNT OF	1884-88	1889-93	1894-98	1899-1903
Reserve .....	13.3	15.1	27.7	22.9
Deposits .....	30.8	36.8	49.6	50.2
Reserve x 9. ....	119.7	135.9	249.3	206.1
Deposits x 4. ....	123.2	147.2	198.4	200.8

This table puts the change in a different light. The reserve had fallen to about 40 per cent of the deposits in the years 1888 to 1891. In 1892 the proportion of four to nine was re-established. This proportion was far surpassed in the dull years already referred to. In the recent busy years, the reserve has not fallen, on the average, to the old proportion to deposits, though it has not far exceeded that proportion. It is true that, in 1899 and in 1900, it fell to three-sevenths of the deposits, but a slightly improved proportion has since been maintained between these two items.

As the redemption of the note circulation in no way depends on the banking reserve, the test of the adequacy of the reserve, or of its due growth with the business transacted, must be its comparative magnitude to the aggregate deposits. As shown, whatever criticism, on other grounds, may be made of the amount of reserve held, it cannot be said that it has fallen in comparison with the deposits.

It may be held, however, that, for equal security, a larger reserve ought to be maintained to guarantee current business than was sufficient in former times. But the obvious retort is that the need of a larger reserve is found in the great growth of other credit institutions, which depend on the Bank of

England's power to make advances to them in time of need. This brings us back to the old point, that those who desire the guarantee should pay for it. We see that, in fifteen years, the funds deposited with the Bank have increased by two-thirds. It has increased its reserve by a little over two-thirds. Can more be expected? The interests of the shareholders of the Bank cannot be ignored. It may be perfectly true that the reserve bears a smaller proportion to the total banking business of the country than is desirable. Yet it can hardly be expected that the Bank should, at its own expense, keep funds unemployed in order that other institutions may be able to employ their funds without anxiety as to the resources available against eventual stress.

The deposits of other Joint Stock banks in England and Wales have increased much faster than those of the Bank of England. Comparing the five years 1884-88 with the five years 1898-1902, when the deposits at the Bank of England increased from 30.8 to 50.2 millions of pounds, the deposits of other joint stock banks increased from an average of about 291 millions to about 575 millions. This is an increase about half as fast again as that of the Bank of England, and might require a holding of cash in hand corresponding to the rate of increase. I say "might", because increase of business does not necessarily require proportionate increase of reserves to give equal guarantee of security. Whether it does so or not will depend on the nature of the new business compared with the old. But I will not diverge into a discussion of the theory of reserves here. There is another point, the bearing of which on the matter in hand is more readily seen. It is this, that the growth of joint stock banking in England has been to some extent at the expense of private banks. At the end of 1893, the earliest year for which I have the requisite figures at hand, the deposits of the private banks of England and Wales, so far as obtained by the *Economist*, and published in its banking supplements, were 64.3 millions sterling. The joint stock banks, at the same date, held deposits amounting to 427.4 millions, including 33.8 millions at the Bank of England. The total was, therefore, 491.7 millions. At the end of 1902, the deposits of private banks were only 34.6 millions, while those of joint stock banks were 665.5 millions, including 65.2 millions at the Bank of England. Thus the total was 700.1 millions, an increase of

2084 millions on 1893. The proportion of increase was thus about 42 per cent.

These figures are given as a means of gauging the growth in the volume of banking business in England. The average reserve of the Bank of England in 1893 was 17 million pounds, and, in 1902, it was 24.2 millions. The increase was over 40 per cent. The banking deposits outside the Bank of England were 458 millions in 1893, 600 millions in 1902. This increase is but little over 30 per cent.

The figures just given are not, in strictness, comparable with those relating to the Bank of England. They represent balance-sheet figures, not the average figures of a weekly account. But they are the best figures available for measuring the growth of bank liabilities. The figures of the average reserve of the Bank of England, too, rather than those for a particular date, serve as the best indication of the ordinary readiness of that institution to support the credit of the country.

Were we to take account of the figures of the reserve at the close of the calendar year, the situation would appear much less satisfactory. At the close of 1893, the reserve was 15.5 million pounds, and it was only 18.3 millions at the end of 1902. The increase was about 18 per cent. It must be remembered, however, that the shadow of the coming depression of trade was already influencing the figures of the Bank's reserve in 1893, so that it then stood relatively high.

The low level of the reserve at the close of the calendar year, however, has, in recent years, called forth comment, not always flattering. It may be as well to consider whether this level involves serious danger. It must be borne in mind that it is not alone the absolute level of a banker's cash which determines his readiness to meet all demands, but the likelihood of the presentation of important demands when his funds are low. If the situation render it practically certain that those funds will be abundantly replenished before they need be paid out, the mere fact that they are not large need not mean that there is danger in sight.

Now the facts of the situation at the end of the year, in England, correspond to this description. In January the reserve increases largely. In each of the last five years, the increase has been five to six millions, comparing the fourth week of January with the last of December. To a large extent, too, the decrease in the last weeks of December is due to a de-

mand for cash for internal circulation, and this is certain to flow back very promptly. We are familiar enough in Canada with corresponding facts. Our bank circulation regularly expands to the end of October, and then flows back rapidly in the three following months. The expansion is not considered to require special additions to cash in hand to provide for redemption. So far, then, as the low end-of-year reserves are a feature of the holiday demand for money, there need be little importance attached to them: they need not be interpreted as meaning weakness.

However, not only do reserves run down at the end of the year, but, since deposits mount up rapidly at that season, the ratio of reserve to liabilities is apt to fall very low. Thus it fell to 28 per cent in 1902, and to less than 33 per cent in 1903, in the last week of the year in each case. In four weeks, the ratio had improved to  $47\frac{3}{4}$  and  $49\frac{1}{4}$  respectively in these two years. When the situation is an anxious one, as in 1899, the falling off in the reserve is restrained by the maintenance of a high discount-rate. In that year the decrease of reserve at Christmas was less than three-quarters of a million sterling, and the lowest figure of the ratio to liabilities was  $38\frac{1}{4}$  per cent, recorded in the first week of 1900.

While undue anxiety over the low figures of the reserve, and of the ratio to liabilities, may be put aside, the facts cover other matter of interest to students of banking. If we examine the movements of the "Other Deposits," and of "Other Securities," we get light on the other side of the problem of a low ratio, quickly restored to a fairly satisfactory figure. These items represent the deposits and loans of the bank to other customers than government departments. To a large extent they represent the business done by other bankers with the Bank of England. In the last four years, the increase of "other deposits" in the last week of the year has been 9, 13, 15 and 9 millions respectively, on totals of from 37 to 40 millions. In the course of the next fortnight, the decreases were 2, 8, 15 and 6 millions respectively. If we turn to the figures of loans, we find the increases in the last week of the year to be 7, 12, 13 and 8 millions, in round figures, and the decreases in loans in the following fortnight were 5, 14, 20 and 11 millions respectively. What is the meaning of this sudden expansion, followed by a quick contraction, in loans?

It is usual to ascribe it largely to what is known as window-

dressings. The balance-sheets prepared to show the status of joint-stock banks at the end of the year look better with a large item against "cash in hand and with bankers" than if the securities pledged with the Bank of England, as collateral against a short loan, were entered on the balance-sheet. The cash in question is really a credit at the Bank of England, and does not represent a real addition to the funds guaranteeing the credit business of the country. Where monthly balance-sheets are issued, a monthly window-dressing commonly occurs. At the middle and end of the year the effect on the items of the account of the Bank of England is especially noteworthy.

The banking supplements of the *Economist* give, twice in the year, the figures of the balance-sheets of the joint stock banks. For the last five years, the compilations from these balance-sheets include a statement separating the "cash in hand and with bankers" from the "money at call and short notice" where such a separation is possible. Comparing the middle of 1899 with the middle of 1903 (the figures of the latest of the supplements being thus utilised), the former item constituted 44 per cent of the sum of the two at the earlier date, 55 per cent at the later date.

Applying these proportions to the aggregate of the two items for all the banks, there would be indicated a total of "cash in hand and with bankers" amounting to 61.5 millions of pounds in 1899, and to 83.9 millions in 1903. The increase of over 22 millions in the four years is very remarkable. The comparison of loans and deposits at the Bank of England in the middle of 1899 and 1903 shows that, in the former year, the sudden expansion and contraction in these items at the half-year was about 4½ millions: last year the figures were about 12 millions for loans and 10 millions for deposits. It seems probable that the principal reason for the contrast of the two years in respect to the point under discussion is the increase of the devotion to the practice of window-dressing. There is indicated, however, a large growth of cash held by, or belonging to, the joint-stock banks. The liabilities to the public increased, in the interval, only from 580 to 605 millions of pounds. The proportion of cash to liabilities works out at 10.6 per cent in 1899 and nearly 14 per cent in 1903, again a remarkable improvement.

It must be noted that the figures of "cash in hand" and "money at call" given for June 30, 1899, do not correspond

well with those for all later dates. Thus, for December, 1899, the "cash in hand" amounts to 53 per cent of the aggregate of the two items, and a figure closely identical with this is given for each subsequent date. Thus the improvement in the proportion of "cash in hand" is probably less than stated above, since the figures given, in October, 1900, for June 30 of that and the preceding year, are doubtfully reliable for 1899. The change of proportion, between June, 1899, and either December of the same year or June of the following year, seems too great to be credited.

Applying the proportion of 53 per cent to the total for all the joint stock banks, the "cash in hand and with bankers" at the end of 1899 would be 71.8 million pounds, against liabilities to the public of 580 millions. The ratio of cash to liabilities is 12.4 per cent. The advance on this figure shown by the 14 per cent at June 30, 1903, or the 14.6 per cent at December 31, 1902, though less than that previously deduced, is sufficient to be quite remarkable.

Though it were proper to attribute the entire recorded amount of the end-of-year expansion of loans at the Bank of England in 1899 and 1902 to the window-dressing by joint stock banks, only some 12½ millions of the 18 millions of indicated increase in cash would be accounted for. Were we, further, able to make allowance for some changes in the assignment of items to various heads in balance-sheets, a large difference remains to be accounted for. An increase of actual reserves held by the banks is indicated. The period of comparison is too short to show whether it is wholly a persistent move towards greater stability, or partly due to a change in business conditions.

A longer retrospect can be taken if we are content to compare the aggregate of "cash in hand, with bankers, at call and short notice" with the liabilities to the public. From June 1893 to June 1903, these liabilities of joint stock banks in England and Wales increased from 398 to 605 millions. The "cash," in the sense indicated, increased from 89.4 to 152.6 millions, or from 22.5 to 25.2 per cent of the liabilities.

That there has been a distinct movement towards better reserves on the part of leading English banks seems to be indicated by figures quoted as well as by other evidence. It has a savour of audacity for institutions which keep but 25 per cent of reserve, counting call loans as reserve as well as cash,



to demand that the Bank of England should add to its average 45 per cent of veritable cash. When a better average than 15 per cent. can be shown, of real cash in hand or at bankers, criticism of the inadequacy of a reserve which falls to 28 per cent only at an exceptional moment may claim attention. We cannot overlook the fact that 15 per cent. is not attained by the mass of the banking institutions of England, even at a date when the cash is inflated by means of special loans for the purpose from the Bank of England. The compulsory publication of that Bank's status weekly precludes any disguising of general weakness. If English bankers wish to see a larger reserve there is nothing to prevent them from securing it, by paying the necessary price, each for himself. As shown above, there are pretty clear indications that this is exactly what is being done, gradually, and under the stimulus of a public opinion in favour of larger reserves generally.

One further point may be noticed before we conclude this paper. It has been shown that the average amount of the reserve of the Bank of England has increased very substantially as compared with ten and twenty years ago, and that the increase has kept pace with the growth in deposits. But attention has been called to the fact that the reserve has, in several years recently, fallen to a low level at the close of the year. The question arises, therefore, whether the reserve is more or less steadily maintained than formerly. Here, again, the examination of the actual facts is fairly reassuring. The problem is, how to secure a satisfactory measure of steadiness, which shall not be too complex or too unwieldy in expression. Referring to periods used for comparisons in an earlier table, we have the following:—

ANNUAL VARIATION OF RESERVE (in million £).

DIFFERENCES BETWEEN GREATEST AND LEAST RESERVE OF EACH YEAR.	1864-73	1877-83	1884-93	1894-1903
Highest .....	11.5 (1866)	13.1 (1876)	8.1 (1890)	16.9 (1896)
Lowest.....	4.1 (1864)	5.1 (1883)	5.2 (1886)	7.5 (1899)
Average.....	6.5	7.2	6.7	11.2
Average amount of Reserve....	10.8	13.2	15.2	25.3

It will be observed that, as judged by this table, the proportion of the average annual difference, between the maximum and minimum figures of the reserve, to the average of the reserve, is the same in each of the two last decennia, and it is substantially greater in the earlier decennia.

If, to test the matter otherwise, we add the figures of any week to those of the corresponding week in each year of the ten, we obtain the course of the average reserve of the ten years, week by week. The highest and lowest of such average weekly figures are found to differ by very nearly one-third of their average amount in each of the first three periods of the above table, and by less than one-quarter in the last period. If we proceed further, and separate the ebb and flow quarter by quarter from the annual movement of the reserve, the same indication, of an actual range of variation less, in proportion to the amount of the general average of the year, than formerly prevailed, is found. The detail of such work is somewhat too complex to introduce here. All the regular movements of business are reflected in the Bank reserve. The payments which occur monthly, the quarterly dividend payments, occurring with a prominence varying in degree from quarter to quarter, the annual movements of trade and agriculture, all exert an influence on banking operations, and ultimately on the fluctuations of the reserve. The various elements can be, in part, separated from the general movement and separately studied. No confirmation of the idea of decreased steadiness of the reserve is found in such work.

If the reserve of the Bank of England be regarded as, in some sense, the fly-wheel of the complicated machine of credit operating in England, we may well feel surprise that the machine works so steadily with so small a fly-wheel. In other countries much larger reserves are found necessary. Probably a good deal of advantage would accrue from increasing the size of the British reserve. But, small though it be, so delicately constructed is the machine which it controls that it serves to keep it running with truly remarkable steadiness. One of the chief objects of this paper has been to show that, in spite of a general impression to the contrary, the growth of the reserve has tolerably well kept pace with the growth of general banking business, and has fully kept pace with the direct liabilities of the Bank of England itself. The directors of that institu-

tion can only be blamed for not increasing the reserve faster than has been done if it can be maintained that the solvency of rival institutions may reasonably be required to be secured at the expense of the shareholders of the premier bank of the country. The desire of the English people, and of the peoples of other nations also, to see the stability of credit throughout the world spared the shock which weakness on the part of the Bank of England might cause, is readily intelligible. But good wishes, combined with keen rivalry in business, will not provide the funds wherewith to pay dividends. These must be earned by the employment of the bank's resources, and they cannot be at once employed and held in reserve.

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## “STERLING EXCHANGE.”

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L. STEWART-PATTERSON.

THE Canadian method of quoting sterling exchange is so complicated, and based on such obsolete and erroneous values that foreign cambists ignore our system entirely, or in a vain attempt to describe it, only succeed in adding to the bewilderment of their reader.

One of the most essential features of a training in foreign exchange is that all calculations should be made independent of exchange tables, by the beginner. In many offices the first calculation on a transaction is made by one clerk and it is then checked by a second clerk, with the tables. The training thus obtained, and the facility and rapidity with which these calculations are made, form the ground work of a technical education, which is becoming more necessary every day as our international transactions increase.

Owing to our complicated system, however, and to the length of time required to make the calculations, our young men do not have the benefit of this training and are taught to depend entirely on the various exchange tables for their conversions, and although we have all learnt how to make the calculation, this knowledge, through desuetude, has long since been relegated to our mental attic, and few of us could make a conversion off-hand without the use of tables or some deep thinking.

Fortunately, however, the originators builded better than they knew, and by their very errors have given us some most interesting studies in the properties of numbers, which, practically applied, rob the conversions of their length and complication; in many instances, requiring only a mental calculation.

It is not my intention to write an article on the theory of foreign exchange, but to deal with the more neglected mathematical features.

Briefly stated, the English occupation of Canada, in 1760, caused the withdrawal of the almost worthless ordonnances and card money of the French régime; and the country found itself depending entirely on the gold and silver coins of other countries for its circulating medium. The English government found it necessary to import large quantities of the Spanish milled dollars for the payment of the army, public supplies and works, which they paid out at the rate of 4/6 per dollar or \$4.44½ per pound sterling. In doing this, they simply adopted the par value of the pound sterling established by an act of 1704, dealing with the currency question of the American colonies. This rate of 4.44½ is what is called the old par of exchange, and our present quotations are given in the form of a percentage of advance on the old par.

This value, established two hundred years ago, is recognized as erroneous by most authorities; according to one author, the Spanish dollar contained, at that period, 385 grains of pure silver, while 20 English shillings contained 1718.709 grains pure.

Thus the value of the Spanish dollar would be

$$\frac{385 \times 20}{1718.709} = 4.480106s. = 4s. 5\frac{7}{10}d.$$

and the value of the sovereign

$$\frac{1718.709}{385} = \$4.46417$$

In 1792 the act establishing the United States mint was passed and we now find the legal weight of the silver dollar given as 371.25 grains of pure silver, while the weight of the English shilling remained unchanged.

The sterling equivalent of this new dollar is

$$\frac{371.25 \times 20}{1718.709} = 4.3201s. = 4s. 3\frac{8}{10}d.$$

and the value of the sovereign in terms of that dollar

$$\frac{1718.709}{371.25} = \$4.6295$$

In 1837 the United States altered the ratio between gold and silver from 15.1:1 to 15.988:1, this undervaluation of silver practically made gold the standard of value and, from this time on, we have to deal with the relative value of the pure gold

contained in the sovereign and in the gold dollar respectively. The gold dollar contains 23.22 grains of pure gold and the sovereign 113.001605.

The gold dollar has, as its sterling equivalent

$$\frac{23.22 \times 240}{113.001605} = 49.3161d. = 4s. 1\frac{1}{2}d.$$

and the sovereign, expressed in terms of the gold dollar, is

$$\frac{113.001605}{23.22} = \$4.8665635$$

This is now the "mint par" between North America and Great Britain, or an advance of 9.497679 (approximately  $9\frac{1}{2}$ ) per cent. on the old legal par of exchange of 4.44 $\frac{1}{2}$ . By an act of Parliament, \$4.86 $\frac{2}{3}$  per pound sterling, or  $9\frac{1}{2}$ % premium on the old par, was made the legal par of exchange for Canada. The United States continued to quote sterling by premium on the old par of exchange until 1873, when it was sensibly abolished. Owing to the light weight of the sovereign, at that time (112,149 grains) the actual premium stood at about 9%.

I have gone at some length into the various values of the dollar, and have given the three principal examples, not only for the purpose of showing how the constantly fluctuating metal values in the coins made it necessary to quote on a percentage basis, but also to show briefly how the percentage is arrived at. We now have to deal with the conversion and fluctuations of the exchange. Speaking broadly, the fluctuations in exchange may be likened to the variations in the mariner's compass, with the mint par represented by the true North, from which the needle varies from East to West, within certain limits, responding to accidental, diurnal and secular changes. So in exchange, we find the quotations fluctuating first on one side, and then on the other, of mint par, never falling below the gold importing point or rising above the gold exporting point, and withal, so delicately balanced, that its movements are affected by the least change in international or internal conditions. (Note 1.)

### *Conversion.*

Years ago when sterling quotations advanced by large fractions, the conversions were comparatively simple, but, now

that quotations advance by sixteenths and sixty-fourths, the calculation is more lengthy; we will find the price of £1 with sterling at  $9\frac{1}{8}$  premium.

Example 1.

Old Commercial par (100)	4.4444
To which add $9\frac{1}{8}\%$ of itself	.40555
	<hr/>
Value of £1 at $9\frac{1}{8}$	4.85
	<hr/>

and, conversely,

Example 2.

What is the premium when £1 =	4.8666
Old par, =	4.4444
	<hr/>
Advance, =	.4222
	<hr/>

which works out  $4\frac{1}{2} : 100 :: .4\frac{1}{2} : 9\frac{1}{8}\%$  premium.

Of late years, however, a short cut has been deduced from the fact that at the old par

$$\begin{array}{rcl} \text{£1} & = & \$\frac{40}{9} \\ \$1 & = & \text{£}\frac{9}{40} \end{array}$$

on above example, this gives us,—

For example 1:

$$100 : \frac{40}{9} :: 109\frac{1}{2} : \$4.85, \text{ the answer.}$$

and for example 2:

$$\frac{40}{9} : 4.8666 :: 100 : 109\frac{1}{2}, \text{ the answer. (Note 2)}$$

These results may be simplified into the following rules,—

To convert from premium quotation to currency: Move the decimal point one place to the left and divide by  $2\frac{1}{4}$ .

$$\text{Thus, } 10.9\frac{1}{2} \div 2\frac{1}{4} = 10.9\frac{1}{2} \times \frac{4}{5} = \$4.85$$

To convert from currency to premium quotation; Move the decimal point one place to the right and multiply by  $2\frac{1}{4}$ .

$$\text{Thus, } 48.6\frac{3}{4} \times 2\frac{1}{4} = 109\frac{1}{2}.$$

Now as Canadian quotations between banks advance by sixty-fourths, it will often happen that, in converting from a currency to a premium quotation by the above method, some difficulty will be found in expressing the decimal to the nearest sixty-fourth. Usually a table has to be referred to, unless the operator knows the fractions by heart; to avoid either evil, I have formulated the following simple rule,—

Learn the eighths by heart,—

$$\begin{array}{lll} \frac{1}{8} = .125 & \frac{1}{4} = .500 & \frac{3}{8} = .375 \\ \frac{1}{2} = .250 & \frac{5}{8} = .625 & 1. = 1.000 \\ \frac{3}{4} = .750 & & \end{array}$$

Deduct the nearest eighth from your decimal, and divide the remainder by sixteen; this will give the number of sixty-fourths to be added to the deduction.

Thus, for the rate \$4.8298, we have, by our rule,

$$\begin{array}{rcl} 4.8298 \times 2\frac{1}{4} & = & 108.670 \\ \text{nearest eighth } \frac{3}{8} & = & .625 \\ \hline & & .045 \end{array}$$

.045, sixteen will go into 45 almost three times, therefore  $\$4.8298 = 108\frac{3}{8} + \frac{3}{16}$ .

The above are the ordinary methods of arriving at the equivalents; I have worked them out in detail, as it is necessary to know them, but I will now give a short rule to work equivalents mentally.

*Neglect \$4.8000 as common to all the quotations and equivalent to 8%, divide the remaining three figures by seven, neglect the remainder, if any, and add one to the result,—this will give you the number of sixty-fourths over 8%.*

Thus \$4.8715 gives  $8 + \frac{715}{7}$ . Hence we have, by the rule,

$$8 + \frac{102 + 1}{64} = 8\% + 1\frac{3}{4}\% = 9\frac{3}{8}\% + \frac{3}{64}\%.$$

This rule is accurate to the nearest sixty-fourth up and including  $4.8875 = 9\frac{3}{8}\% + \frac{1}{16}\%$ . After that, it will be found necessary to increase the remedy for degree of error to two sixty-fourths. This rule will, of course, work conversely, from Canadian to Currency quotations, by multiplying the number of sixty-fourths in excess of 8% by 7, and, for remedy of error, deducting one per cent. from the result:—

To find the equivalent of  $9\frac{3}{8}\% + \frac{1}{16}\%$  by this rule  $9\frac{3}{8}\% + \frac{1}{16}\% = 8 + \frac{77}{64}$ , and  $77 \times 7 = 539$ , one per cent. of which, namely 5, being deducted, leaves 534, and the equivalent rate is 4.8534. (Note 3.)

### Interest.

The next question which we have to consider, is that of interest; now, although convenient tables are published by



some of the leading exchange brokers and others, it is just as well to be as independent in this respect as in conversions. It is customary to reckon the interest on the basis of £100=\$485, and the calculation resolves itself into one of simple interest.

$$63 \text{ days at } 3\% \text{ on } \$485 = \frac{63 \times 3 \times 485}{100 \times 365} = \$2.5113 \text{—per } £100.$$

This, of course, can be figured out on the ordinary interest tables. With demand rate at 486.40 a sixty day sight bill is worth  $486.40 - 2.51 = 483.89$ , or, with stamps (.243 per £100) =  $483.65$  or  $8\frac{1}{8} + \frac{1}{4}$ .

For those who have not a convenient table for these calculations, I have prepared the following little table for handiness, representing the interest on \$485. at 1% for the respective number of days. By means of this, a small desk table can be made out at the Current Bank of England rate, by simply multiplying by the rate per cent; I have appended a table at three per cent, as an example:—

DAYS	£100 @ 1%	£100 @ 3%	WITH STAMPS
Stamps			.243
3 days	.039,863	.120	
10 "	.132,876	.369	.641
18 "	.239,178	.718	.980
30 "	.398,628	1.196	1.338
33 "	.438,498	1.315	1.557
45 "	.597,941	1.793	2.036
63 "	.837,118	2.511	2.753
93 "	1.235,746	3.707	3.949
123 "	1.634,374	4.903	5.145

In the above, the calculations are carried out further than necessary, the mills may be neglected. By combining, almost any number of days can be found, for instance, 3 days sight @ 3% equals  $2 \times .120$  and 15 days sight equals  $6 \times .120$ , always remember to add stamps *afterwards*.

The same table in Canadian equivalents works out as follows:—

DAYS	EQUIV. @ 1%	@ 3%	WITH STAMPS
Stamps			.065
3 days	.008,97	.027	
10 "	.029,90	.090	.144
18 "	.053,81	.161	.216
30 "	.089,09	.269	.324
33 "	.098,66	.296	.351
45 "	.134,53	.403	.458
63 "	.188,35	.565	.620
93 "	.278,04	.834	.889
123 "	.367,73	1.103	1.158

The above will be found useful in counter work, for if your demand counter rate is  $9\frac{3}{4}$ , the sixty days sight is worth .620 or  $\frac{3}{4}\%$  less, equalling  $8\frac{3}{4}$ . A little study of both tables, will make them familiar to the reader. (Note 4.)

I have been unable to find out why \$485 to the £100 sterling was arbitrarily taken as the basis of these interest calculations, except that it is a multiple of five, and easier to work with; theoretically, and as I will show, practically, the legal par of  $4.86\frac{2}{3}$  would have been the best rate, theoretically because it occupies the mean position between the gold points, and practically, because  $4.86\frac{2}{3}$  is a multiple of 73 which forms such an awkward factor in calculating interest by days. On a basis of  $4.86\frac{2}{3}$  we get the following rule:—Multiply the number of days by the rate per cent and divide by 75.

Thus, 63 days @  $3\frac{1}{2}\%$  on  $486.66\frac{2}{3}$  =, worked by this rule, gives  $63 \times 3 \times \frac{1}{2} = \frac{3}{2} \times \frac{1}{2} = 2.52$ .

this is, of course, more than the interest reckoned on \$4.85 by  $\frac{1}{800}$  of itself.

Int. on $486.66\frac{2}{3}$	=	2.52
Less $\frac{1}{800}$	=	.0084
Approximate interest on 485	=	2.5116

This is correct to the one-tenth part of one per mille.

Proof,—deduct the  $\frac{1}{10,000}$ th part  $\frac{.00025}{\$2.5113}$

Actual Interest  $\$2.5113$  (see p. 5)

To figure interest mentally, the rule is to multiply rate by days, and divide by seventy-five, and deduct  $\frac{1}{3}$  of  $1\%$  if very close figures are required, but the first part of this rule will

The correlative application of this principle to Canadian quotations gives us a very pretty rule, which is simply to multiply the rate per cent. and number of days by .003 or  $\frac{3}{1000}$

Example: 93 days @ 3% =  $93 \times 3 \times \frac{3}{1000} = .837$ , by the above table the exact percentage to be added to the quotation is .83412, but as the result is treated in terms of the nearest sixty-fourth, the difference does not signify, and can be neglected. However, should the nearest approximation be desired,  $\frac{1}{3}$  of 1% or  $\frac{1}{300}$  of itself, thus—

	.837
$\frac{1}{300}$ less	.00279
	<hr/> .83421
and as in the currency rule $\frac{1}{10000}$	.0000834
	<hr/> .8341265

Table above (.27804  $\times$  3) .83412

I think I have clearly demonstrated by above rules that it would be of great advantage both in currency and Canadian quotations to adopt the par rate of \$486.66 $\frac{2}{3}$  per £100 as the basis for figuring interest, whether it is generally adopted or not, I would recommend its use in everyday work as the difference is practically nothing, for example:—

63 days interest on £10,000 @ 4% on \$48,666 basis is.. 336.

63 days interest on £10,000 @ 4% on \$48,500 basis is.. 334.80

Gain to purchaser on 60 days for £10,000..... \$ 1.20

The simplicity of the rule for Canadian quotations also commends it, in above example we have .837 to deduct from demand rate of say  $9\frac{1}{4}\%$ , now .837 is by a former rule equal to .837 + .055 for stamps = .992 =  $\frac{7}{8} + \frac{1}{8} = \frac{1}{2} + \frac{3}{4}$  or if you are a buyer 1%, so that a 60 days bill is worth  $9\frac{7}{8}\% - (\frac{1}{2}\% + \frac{1}{4}\%) = 8\frac{3}{8}\% + \frac{1}{4}\%$ .

*A New Method of Conversion.*

As already pointed out the quotations on sterling exchange have reached a point where exchange tables have to be supplemented by calculations, as no table goes further than an advance of  $\frac{1}{16}$  of 1%; to dispense with this partial use of tables and simplify the calculations I have devised an interesting method of treatment, which will be found especially useful in calculating on even amounts at close fractional quotations, or for commercial use where sterling transactions are too infrequent to warrant the purchase of exchange tables.

The method consists simply of assuming a base or key number to correspond with 108%, increasing the key number by one unit for every sixteenth advance over the 8% premium, thus

8% premium is represented by	1728	$\frac{1728}{100}$
$8\frac{1}{16}\%$ “ “	1729	$\frac{1729}{100}$
$8\frac{2}{16}\%$ “ “	1730	$\frac{1730}{100}$
$9\frac{1}{8}\%$ ( $8\% + \frac{1}{8}\%$ ) “	1746	$\frac{1746}{100}$
$10\%$ ( $8\% + \frac{2}{8}\%$ ) “	1760	$\frac{1760}{100}$

and so on each advance of a sixteenth in the quotation increasing the key number by one, these form the numerator of a fraction of which 360 is the denominator or divisor common to all.

For example, a purchase of £10,000 @  $9\frac{1}{8}$  would be worked out as follows:  $\frac{1746}{100} \times 10,000 = \frac{2210000}{100} = \$48,500$ .

Conversely, a purchase of \$10,000 @  $9\frac{1}{8}$  would be worked out by reversing the fraction— $\frac{100}{1746} \times 10,000 = £2061.17.1\frac{3}{4}$ .

The usefulness of this rule will be more apparent when we have to deal with sixty-fourths and finer shadings, which are added to the key number as fractions or decimals of a sixteenth, thus:—

$$\begin{aligned} 9\frac{1}{8} + \frac{1}{16} &= \frac{1746\frac{1}{2}}{100} \text{ or } \frac{1746\frac{1}{2}}{100} \times 100 \\ 9\frac{1}{8} + \frac{2}{16} &= 1746\frac{1}{2} \text{ or } 1746.50 \\ 9\frac{1}{8} + \frac{3}{16} &= 1746\frac{3}{4} \text{ or } 1746.75 \\ 9\frac{1}{8} + \frac{4}{16} &= 1746\frac{1}{2} \text{ or } 1746.125 \end{aligned}$$

We will take for example the purchase by a bank of

$$£10,000 @ 9\frac{1}{8} + \frac{1}{16} = 1747.25 = 174725.00$$

$$10,000 @ 9\frac{1}{8} + \frac{2}{16} = 1747.50 = 174750.00$$

$$60 \overline{) 349475.00}$$

$$6 \overline{) 582458.333}$$

Value of £20,000 @ above rates

$$\$ 97076.388$$

Compare this with the ordinary method of working the same example with or without tables. Remember that 360 is the divisor common to all.

It may be of interest to give a key number for the American or currency quotation, the key number corresponding to \$4.80 per £ is 1920, advancing one unit per quarter cent, with a divisor common to all of 400.

4.80	is represented by	$\frac{1920}{400}$
$480\frac{1}{2}$ or 4.8025	"	" $\frac{1921}{400}$
484 or 4.84 $(480 + \frac{1}{2})$	"	" $\frac{1924}{400}$
$484\frac{3}{4}$ or 4.8475 $(480 + \frac{3}{4})$	"	" $\frac{1927}{400}$

I do not claim any advantage for the use of this method where the currency quotation obtains, as the currency value of the pound sterling simply requires to be multiplied by the amount to be converted, still in the absence of tables it certainly simplifies the calculation, thus comparing the two methods:—

$\$496 @ 4.8475 = 496 \times 4.8475 = \$2404.36$   
is simplified into

$$\frac{496 \times 1939}{400} = 2404.36$$

and conversely

$$\$496 @ 4.8475 = 496 \times \frac{1}{4.8475} = £102.6.4\frac{1}{2} \text{ approx.}$$

is simplified into

$$\frac{496 \times 400}{1939} \quad £102.6.4\frac{1}{2} \text{ approx.}$$

The intermediate quotations between the quarter cents are treated as fractions or decimals of the quarter cent, thus:—

$$4.8455 = 4.80 + \frac{18}{4} + \frac{20}{100} = \frac{1938.20}{400} \text{ or } \frac{1938\frac{1}{2}}{400}$$

It is apparent from above that a simple way to arrive at the American key number is to take the quotation for £100 and multiply by 4.

$$\begin{aligned} 484.55 \times 4 &= 1938.20 \\ 486.75 \times 4 &= 1947 \end{aligned}$$

The American key number can easily be converted into the Canadian key number, by multiplying it by  $\frac{1}{16}$  or deducting  $\frac{1}{16}$  of it self  $(\frac{\text{Canadian denominator}}{\text{American denominator}} = \frac{1920}{1939} = \frac{1}{16})$

Thus  $484.50 = 1938 - 193.80 = 1744.20$  the Canadian key number,  $1744.20 = 1728 + \frac{16}{100} = 8 + 1 + \frac{16}{100}$  or  $9\frac{1}{10} + \frac{1}{10}$  almost. (You will notice that the decimal is divided by 1600, one sixty-fourth being equal to  $\frac{1}{1600}$ , had the decimal in above been .83, this would give us  $\frac{1}{1600}$  or  $\frac{1}{1600} + \frac{1}{1600} = \frac{1}{800} + \frac{1}{1600}$ )  $487.65 = 1950.60 - 195.06 = 1755.54 = 9\frac{1}{10} + \frac{1}{10} + \frac{1}{1600}$ .

To prove the absolute accuracy of the above calculation we will take equivalent of  $9\frac{1}{10} + \frac{1}{10} = 4.8763\frac{1}{2}$

$$\frac{1}{1600} \text{ of } 1\% \text{ of } 4.44 = \underline{0001\frac{1}{2}}$$

4.8765 the rate given above.

The Canadian key number can be converted into the American key number by multiplying it by  $\frac{1}{10}$  or adding  $\frac{1}{10}$  of it self ( $\frac{1}{10}$  reverse of above) thus  $9 + \frac{1}{10} = 1744.75 + 173.861 = 1938.611 = 4.8465277$ .

400

No doubt at first sight the above may appear complicated, but from my own experience I feel confident that a little study and practice will be amply repaid; by cancellation and mental work the figuring is frequently reduced to a minimum especially if the reader is versed in the numerous short cuts in multiplication and division. It is a difficult matter to put into writing rules and examples of this kind, and I realise my own limitations in this respect. Where multiplication and division are implied in the examples I have not cancelled or worked them out, but simply given the result. The methods described are entirely new, and I have no doubt that following the same lines an investigator can establish many interesting, if not practical applications for himself.

The paper was originally intended for the younger members of the profession, but I hope it will not prove uninteresting to my older confrères, in this belief I have omitted explanations in the text and included them in a series of brief notes at the end of the article, confining myself principally to points on which the average text book on exchange is more or less silent; a bibliography is also added, which may be of interest to those wishing to follow up exchange as a study.

### *British Quotations.*

Before closing, a few words on the above may prove of interest.

The English quotations for North American exchange is generally quoted in pence per dollar, advancing by thirty-seconds of a penny, and the reduction to an equivalent American rate per pound sterling has to be done by tables or by a very tedious calculation. Lately, however, it has become more and more the practice to use the American method of quoting dollars and cents per pound sterling, which of course makes comparison a simple matter. The old method, however, is frequently met with in newspapers and books on exchange, and as there are no tables in use on this side which give the equivalent, I will give a quick mental method of converting the American equivalent to the terms of the other to the nearest thirty-second of a penny. I must first impress on you that as the dollar value of the pound *increases* the pence value of the dollar naturally *decreases* and *vice versa*.

Thus:—

\$5.0000 per £ = 48d per dollar.

4.9230 “ 48½ “

4.9136 “ 48⅓ “

4.8000 “ 50 “

To reduce the American rate to the English quotation per dollar:—Take 4.8000 as equal to 50d and deduct from quotation, divide the remainder by 30, the whole number thus obtained represents the number of thirty-seconds of a penny to be deducted from 50 pence, to give the equivalent.

Find the equivalent of \$4.9136 per £.

\$4.9136 = 48000 + 1⅓ = 50d - ⅓ = 48⅓ pence

\$4.8666 = 48000 + ⅔ = 50d - ⅔ = 49⅓ pence

\$4.8425 = 48000 + ⅞ = 50d - ⅞ = 49⅞ pence

This rule will hold good up to 4.9199 or 48 ⅓ after that the degree of error becomes appreciable. However, as this rate is much higher than the gold point, we need go no further, the Canadian equivalent being 10⅓.

The rule will work conversely, only not as accurately; deduct the English quotation from 50 pence, multiply the number of thirty-seconds in remainder by 30 and add to 48000, if the remainder exceeds twelve, increase your American quotation by the amount of the excess, this will bring it to within about \$3.00 per £10,000.

49⅞d gives 50 - 49⅞ = ⅞ = 420 ÷ 2 = \$18422.

Note that 14 exceeds 12 by two, which is added to quotation. The converse rule is not satisfactory and I did not intend at first to put it in, as I could not get a rule to give correct results. Perhaps some of my readers can suggest a method.

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### NOTES.

(1) "Gold or specie points" are the rates of Exchange, produced by buying gold in one country and selling it in another; when exchange is selling in New York higher than it would cost to buy the gold and ship it to London, the remitter naturally takes the cheaper method and sends gold; and when, on the other hand, exchange is so plentiful that the rate registers abnormally low, a seller may find it cheaper to bring his London balance over in gold.

The "Mint par" or theoretical par, remains invariable in gold standard countries, and if the exporting or importing of gold could be effected without expense or loss of interest, the mint par and specie point would be identical; but heavy expense is incurred, averaging about 3% or  $\frac{3}{8}$  of 1% for freight, insurance, cooperage, cartage, abrasion, interest and other charges; these charges, deducted from the mint par, will give the import gold point and added to the mint par will give the export gold point. Roughly speaking, the gold points are  $\frac{3}{8}$  to  $\frac{1}{2}$  per cent premium on either side of the mint par or 2 to 2 $\frac{1}{4}$  cents per pound. In a recent number, the *New York Journal of Commerce and Commercial Bulletin*, gives the following explanation as to how a gold shipment is figured:—

"An American eagle weighs 258 grains or .5375 oz. troy. In \$1,000,000 worth of eagles, therefore, of exactly full weight, there would be 53,750 ozs. The Bank of England will buy American eagles at a fixed rate of 76s. 4 $\frac{1}{2}$ d. per oz. (sometimes a little more). At that rate 53,750 ozs. of eagles (allowing nothing for abrasion) would yield £205,201. The charges on a shipment of gold to London vary with each shipper and these are trade secrets which are jealously guarded. In a rough way, however, it costs about \$3,000, or £600, to ship \$1,000,000 gold to London. The following formula shows roughly the



result of a shipment of \$1,000,000 of eagles of exactly full weight:—

“\$1,000,000—53,750 ozs.—which yield.....£205,201

Charges:—

Freight,  $\frac{1}{2}$  of 1 per cent.....£317

Insurance,  $\frac{1}{4}$  of 1 per cent..... 93

Interest, 10 days, at say 3 per cent..... 171

Cartage, cooperage, say \$100, or..... 20

Total .....£601— 601

Net yield of shipment.....£204,600

“A shipment of \$1,000,000 eagles on the above basis, then, will realize £204,600 net. This means that every pound sterling costs (1,000,000 divided by 204,600) \$4.8875. If this were all the story, then so long as demand sterling could be bought at less than \$4.8875, there would be no inducement to ship gold.

“But owing to the so-called ‘triangular’ operation, or to special concessions offered by the receiver of the gold, it is often practicable to ship gold to Europe when demand sterling is selling below \$4.8875, or even below \$4.88.”

### Conversion.

(2) The actual working out of the rates:—

$$4\frac{1}{2} : 100 :: 4\frac{1}{2} : 9\frac{1}{2} \text{ is}$$

$$\frac{9}{10} \times 100 \times \frac{1}{10} = \frac{9}{1} = 9\frac{1}{2}$$

and of the rates

$$100 : 4\frac{9}{10} :: 109\frac{1}{2} : 4.85 \text{ is}$$

$$\frac{10}{100} \times \frac{9}{10} \times \frac{1}{10} = \frac{1}{100} = 4.85$$

and of the rates

$$4\frac{9}{10} : 4.86\frac{2}{3} :: 100 : 109\frac{1}{2} \text{ is}$$

$$\frac{9}{10} \times \frac{14\frac{2}{3}}{100} \times 100 = \frac{13}{10} = 109\frac{1}{2}$$

To convert from currency to premium quotations the equation,  $48.6\frac{2}{3} \times 2\frac{1}{4} = 109\frac{1}{2}$  is generally worked out by addition, thus:—

$$\begin{array}{r}
 48.6666 \\
 48.6666 \\
 \text{add } \frac{1}{4} \quad 12.1666 \\
 \hline
 2\frac{1}{4} \times 48.66\frac{2}{3} = 109.5000 = 109\frac{1}{2} \\
 \hline
 48.735 \\
 48.735 \\
 \text{add } \frac{1}{4} \quad 12.18375 \\
 \hline
 2\frac{1}{4} \times 48.735 = 109.65375 = 109\frac{1}{2} + \frac{1}{4}
 \end{array}$$

(3) *Rule for Conversion.* This rule may perhaps appear arbitrary, but it is based on the fact that  $\frac{1}{4}$  of 1% on \$44444. is equal to \$6.9444 or almost 7, which used as divisor gives the approximate sixty-fourth according to the rule; this rule might perhaps be modified so as to consider the remainder after dividing by seven, and add the extra sixty-fourth if you are selling or neglect if you are buying. As in the tables, unless the quotation is an exact equivalent of a sixty-fourth, you can only approximate it by using the sixty-fourth either above or below. In the converse rule I have given as a remedy of error a deduction of 1%, to be exact  $\frac{1}{4}$  of 1% should be the amount of the deduction. In the higher quotations, in using both rules, it will be found of advantage to take 48500 from quotation as equal to  $9\frac{1}{4}$  or in fact the nearest equivalent you may happen to know, instead of 48000. For example, to find the equivalent of  $9\frac{1}{4}$  we deduct  $9\frac{1}{4}$  as equal to 48500 leaving  $\frac{1}{4}$  or  $\frac{1}{8}$  to deal with:—

$$\begin{array}{r}
 4.8500 \\
 20 \times 7 = 140 - (\frac{1}{4} \times 1.40) = 140 - 1.12 = 138.88
 \end{array}$$

The exact equivalent of the tables of  $9\frac{1}{4}$

A brief study of the working of this rule will accustom the reader to it, and he will be able to determine his own nearest equivalent to meet both buying and selling conditions.

(4) *Interest Tables.* It might be of use to some of my younger readers, to explain more fully, the nature of time bills, stamp duties, etc. Practically, cable transfer quotations are the base quotations, as the question of interest does not enter

into the transaction, and they represent the actual value of the English pound paid in London the same day; the following will show the difference of time between the different bills and the stamps required:—

*Cable Transfer*, no stamp, cost of cablegram to be borne by purchaser if amount is under £5,000.

*Demand draft or cheque*, one penny stamp, ten days interest being allowed off cable rate.

Three days sight, (3 d/s) one penny stamp, six days interest off demand rate.

All bills drawn for over three days sight, incur a stamp duty of 1/- per £100 or  $\frac{1}{16}$  of 1%, which must always be taken into consideration in figuring value of time bills:—

15 days' sight, eighteen days off demand rate, and stamps,

30 days' sight, thirty-three days off demand rate, and stamps.

60 days' sight, sixty-three days off demand rate; this is also called the *usance* or customary time on which bills drawn between the New York and London market; a seventy days' date bill is often used as an equivalent.

In all exchange transactions the rate of interest is always governed by the rate obtaining in the country where the bill is domiciled, so that on English bills the Bank of England rate and London market rates, are used in these calculations; the Bank of England rate also governs the rate of interest paid by the London joint stock banks on deposits, it being generally  $1\frac{1}{2}\%$  below the Bank of England rate. I mention this fact as you will often see bills, with documents attached, going forward with instructions to accept payment "under a rebate of  $\frac{1}{2}\%$  above rate of interest allowed on deposits by joint stock banks;" if the Bank rate was 4% the deposit rate would be  $2\frac{1}{2}\%$  and the rebate rate 3%. New York governs the sterling exchange of this continent, and both Canadian and American interior rates are based on the New York quotation, increased or decreased by the premium or discount on New York funds, and other local contingencies. In Montreal, for instance, New York funds are quoted in sixty-fourths, ranging from  $\frac{1}{4}$  premium to  $\frac{1}{4}$  discount, which form the gold points between the two cities. In sterling computations \$8, \$15, \$23 and \$31 are generally taken as representing one, two and three sixty-fourths and one-sixteenth respectively, and deducted or added from or to the New York sterling quotation. Given the New

York rate for demand bills as 48625, and New York funds in Montreal at  $\frac{1}{4}$  discount, we will find the equivalent quotation for a sixty day bill.

		\$48,625
Less $\frac{1}{4}$ discount .....	23	
Value of demand draft in Montreal		
	$3\frac{1}{4} + \frac{1}{4}$ or	48,603
for a 60 days sight.		
Deduct 63 days interest at 3%.....	251	
Stamps .....	24	275
Value of a 60 days sight bill= $8\frac{1}{4} + \frac{1}{4} =$		\$48,328

We will now take the given rate in Canadian quotations and use the other table (always remember where the Canadian rate is given, that the New York premium or discount has already been reckoned on). Given demand rate at  $9\frac{5}{8} + \frac{1}{4}$  to find value of 60 days sight bill, by the table, interest at 3% is .565% and stamps .055 equals .620 or  $\frac{5}{8}$ %, to be deducted from  $9\frac{5}{8} + \frac{1}{4} = 8\frac{1}{4}$  or  $8\frac{1}{4} + \frac{1}{4}$ , or, if preferred, the calculation may be made as follows:—

$$\begin{array}{rcl}
 9\frac{5}{8} + \frac{1}{4} & = & 9.3593 \\
 \text{Interest, .565} & & \\
 \text{Stamps, .055} & \underline{.620} & \\
 8.739 \text{ or } 8\frac{1}{4} + \frac{1}{4} & & 
 \end{array}$$

Another method of reducing the decimal fraction to the nearest sixty-fourths is to multiply the decimal by sixty-four, and the whole number will be the number of sixty-fourths.

Thus, in the above example,  $.739 \times 64 = 47.296 = 47 + \frac{296}{1000}$  or  $47 + \frac{1}{4} + \frac{1}{8}$ . This can also be done by multiplying by eight, which gives the eighths, thus  $.739 \times 8 = 5.912$  and then the decimal again by 8, which gives the sixty-fourths—

$$5.912 \times 8 = 47 + 7.296 = 47 + \frac{1}{4} + \frac{1}{8}$$

I will not attempt to go into the different market rates and how the nature of the bill affects the rate of interest in calculations; this knowledge is best gained by experience, as it requires very careful and exhaustive treatment to be of practical use; the best, and in fact, the only work dealing with this

subject exhaustively is Margraff's "International Exchange;" I have also omitted from these calculations the deductions for profit, and commission to the London bank, which have to be taken into consideration in practice. However, if the broad principles of the calculations are once mastered, the variations mentioned above will offer no difficulty to the student, and the guidance and explanations of one of the seniors will quickly put him in touch with the policy of his own bank in these matters.

### *Sundry Notes.*

To reduce shillings and pence to the decimal of a pound: Multiply the shillings by .05, and the pence by  $.004\frac{1}{4}$ , the reason of this is apparent:—

$$£1=1.$$

$$1 \text{ s.} = .05 \text{ of a pound.}$$

$$1 \text{ d.} = .00416\bar{6} \text{ of a pound or } .004\frac{1}{4}.$$

If an approximation only is desired to the nearest penny, multiply the pence of  $.004$ , and add one to result if over twelve, and two if over thirty-two.

Example:—

Reduce £15.8.7 to pounds and decimal:

	15.
.05 × 8/-	.40
.004 $\frac{1}{4}$ × 7	.029 $\frac{1}{4}$
	£15.429 $\frac{1}{4}$

To reduce decimals to shillings and pence, divide the first two numbers by five for the shillings and the remainder by four for the pence (to be exact divide by  $.004\frac{1}{4}$  or  $\frac{2}{5}$ )

In every exchange table, whether specially compiled for the Canadian quotations or not, the dollar value, at any rate, of £225 or rather £22.50, will give the Canadian equivalent; for instance, look up the value of £225 at 4.85 and we get 1091.25 or for £22.50=109.125 or 109 $\frac{1}{4}$ .

To get the absolute value of a shilling or shillings at *any rate*, multiply the number of shillings by five, and look up the dollar value of that result as pounds, thus 15/- at 109 $\frac{1}{4}$  equals by rule 75 or  $15 \times 5$ , £75 at 109 $\frac{1}{4}$ =363.75 therefore 15/- at 109 $\frac{1}{4}$ =£3.6375 exactly.

## BIBLIOGRAPHY.

Nearly all books on political economy treat more or less exhaustively, on the question of foreign exchange, and most of them are worth reading. The principal books dealing almost entirely with the question of exchange are listed below; beginning with the more elementary works, the names of the authors are given first:—

**CLARE—*A. B. C. of the Foreign Exchanges.***—An excellent and most comprehensive little work, though written from an English standpoint, its explanations are too lucid and well expressed to make that an objection.

**CLARE—*Money Market Primer.***—By the same author as above, treats of the Bank of England statement Bank of England and market rates of interest and their especial bearing on foreign exchange, both as to cause and effect.

**"N.Y. FINANCIER"—*Foreign Exchange.***—One of the first books published dealing with foreign exchange from the American standpoint. It first appeared in a series of articles published a couple of years ago in the "*Financier*" of New York, and was so well received that it was finally put into book form. It gives a good theoretical exposition of foreign exchange, though the practical side might have been more fully dealt with than it is. The appendix by H. K. Brooks is particularly useful.

**BROOKS, H. K.—*Foreign Exchange.***—"Figured, explained, simplified, illustrated. Complete in one volume," is the legend on the front cover. Though practically a book of "exchange tables", the descriptive matter is so exhaustive and well written that it forms an attractive feature of the book. The exchange tables are very comprehensive, and include under the one cover conversion tables for the money of every country in the world to United States money and *vice versa*, arranged on an original yet simple plan, and including valuable subsidiary tables.

**BUCHAN'S—*Sterling Exchange Tables.***—These are the standard tables for Canada and are too well known to need comment. Future editions might be greatly improved by the addition of descriptive and explanatory letterpress for the benefit of beginners.

**TERROUX—*Tables of Interest and Equivalents.***—A useful little pocket book, giving Canadian and Currency equivalent to the nearest sixty-fourth, and also interest tables for Sterling, French and German time drafts, and other useful subsidiary tables.

**MARGRAFF—*International Exchange.***—This is a new work published this year, and is a veritable *vade mecum* to the exchange student. The author, one of the leading cambists in the United States, is able to speak authoritatively and from ripe experience, and has omitted nothing that might prove useful knowledge, either to the beginner or the practical man, and the book stands unique, both as a text book and as a book of reference. It is the most practical book on foreign exchange published in the English language. The many excellent publications in German and French go too deeply into arbitrage and other extremely technical matters to be of use to the average reader, Mr. Margraff however has managed to strike a happy medium between the elementary and ultra-technical writers.

**TATE—*Modern Cambist.***—This is still the standard English work on the practice of exchange and arbitrage; as the last edition was published many years ago its usefulness is rather impaired by the lapse of time. If revised and brought up to date it would be a more valuable book of reference.

(e)

**GOSCHEN—On Foreign Exchange.**—As a theoretical exposition of the subject this work has never been surpassed in any country, it well merits a careful reading.

#### FRENCH WORKS.

**KAUFMANN—Arbitrage.**—A recently published work which deals exhaustively with exchange and bullion arbitrage; it covers the whole field embodied in Tate's "Modern Cambist" and has the additional advantage of being up to date.

**HAUPT—Arbitrage and Parities.**—A monumental work on the subject, dealing most exhaustively with the finances, stock markets and exchanges of the world; arbitrage in bullion is of course a strong feature and many valuable tables are scattered throughout the work. Unless a new edition has been published lately, the work is not so up-to-date as Kaufmann's but as a book of reference it is invaluable.

#### GERMAN WORKS.

**SCHAEER—Technik des Bankgeschäfts.**

**SCHLOESSING—Der Kaufmann auf der Höhe der Zeit.**

**SORNDOFFER—Die Technik des Welthandels.**

None of these deal exclusively with foreign exchange, although containing much theoretical information from the European standpoint and useful to the American operator in his transactions with these markets. Sorndoffer's work is an admirable specimen of the thorough treatises on commercial subjects written in the German language. It contains explanations of the various phases of mercantile transactions, from the standards of weight and measurement to the freight schedules and maritime insurance, together with a description of the organization of produce and stock exchanges in general, and details relating to particular trades such as wheat, cotton, sugar, spirits, etc. The chapters on the currencies of the world deal with the facts of exchange quotations everywhere, and with their bearing on mercantile transactions.

## THE PROOF OF COMMERCIAL SALES.

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**I**T is probable, judging from the expressions of surprise that from time to time greet some of our soundest legal decisions, that a great many merchants, although they may be conversant in a general way with the law that governs commercial sales, fail entirely to realise the effect of its terms with regard to proof, and are surprised and indignant when they or their travellers are not permitted to tell their story in the witness box. The very existence of commerce depends on the good faith of the parties, and many contracts are carried out to the loss of one side or the other, when technically the obligation could not be enforced in a Court of Law. It is an unavoidable concomitant of human affairs that a law wisely enacted for the protection of the innocent at the same time shelters the guilty. Merchants trust their customers and customers their vendors, and without a word or a letter of writing conduct to a satisfactory conclusion hundreds of bargains to their mutual advantage, which did they realise the risk they ran, or had they less confidence in the integrity of their fellows, would never pass the state of *pourparlers*.

Contracts, the law says, are completed by the consent alone of the parties; but something more than mere consent is required to prove their existence before our courts. It is this question of proof that introduces so great an element of uncertainty into commercial transactions, and opposes a barrier to the enforcement of an obligation that is in all other respects just and valid.

The object of this article is to point out what proof is requisite before the merits of a disputed commercial sale can be tried.

One of the most fruitful sources of litigation in England is the "Statute of Frauds," an act passed in 1677 and subsequently amended in 1829, to prevent perjuries as well as frauds by enacting that a litigant could not be pressed, under the act, either to admit or deny an alleged contract. Lord Nottingham is said to have declared that every line of the Statute was worth a subsidy; but a keener critic wittily re-



torted that each line had cost a subsidy. The correctness of this remark can hardly be doubted when the numberless actions at law that have arisen in virtue of the act are considered; and yet no one would have it changed, for it is a safeguard with which we could not dispense. The substance of the English Statute was very early reproduced in statutory form in Lower Canada, and is now embodied in the Civil Code at Art. 1235. This Article with regard to commercial sales reads as follows:

"In commercial matters in which the sum of money or value in question exceeds fifty dollars no action or exception can be maintained against any party or his representatives..... upon any contract for the sale of goods unless there is a writing signed by the former (person sought to be charged), or unless the buyer has accepted or received part of the goods or given something in earnest to bind the bargain."

This article might be invoked in almost any of the myriad transactions that are daily consummated; for we believe, it is seldom that a Commercial Traveller requests his customer to sign the order before forwarding it to his principals. Let us suppose the case then where the merchant ships the goods as speedily as possible, in full accord with the order as received, but not before a drop in price. The purchaser may, if he has little enough integrity, repudiate the contract, and the merchant will be powerless to compel him to take the goods. Or, if the honest purchaser refuse to carry out the contract on the ground of a misunderstanding of certain terms of the sale, the seller will not be allowed to adduce the evidence of his traveller to prove that the goods and delivery conform in every respect to the order as given. The question of proof of the contract, when it is merely verbal, under the article naturally divides itself into three sections.

1. Proof by a writing.
2. Proof by acceptance or receipt of the goods.
3. Proof by earnest given.

The "proof" here referred to is merely that of the existence of a contract, which must be established in a satisfactory manner before the plaintiff may proceed to prove its execution. The object of the law in introducing these formalities, was, as indicated by the Statute of Frauds, to protect innocent parties against fraud. Without some such regulation it might be pos-

sible for a dishonest dealer to deliver unordered goods, and by perjured testimony compel another to pay for goods he neither bought nor wanted. It leaves the door open, unfortunately, to the equally fraudulent repudiation of a contract; but in the latter case, knowing what will be required of him, the careful man can take all necessary precautions to protect himself against dishonesty, while in the former there would be no possible safeguard.

### *The Memorandum in Writing.*

The expression used in the article "A writing" is somewhat vague and we must examine the settled jurisprudence to properly define it. Happily for the simplification of this task the English Authorities may be referred to without the hesitation and extreme caution that must be used in the study of many other enactments that have undergone considerable change since their introduction into the law of our Province. It is to be remarked, in the first place, that it is not the contract itself which must be in writing, but merely a memorandum referring to the contract.

Nor must the writing signed by the party whom it is sought to bind be confounded with a "commencement de preuve"; it is a memorandum much more explicit, and our jurisprudence has followed the English Courts in interpreting the phrase restrictively. We have no definition of "commencement de preuve," but the Code Napoleon (1347) defines it as "tout acte par écrit qui est émané de celui contre lequel la demande est formée, ou de celui qu'il représente, et qui rend vraisemblable le fait allégué." This may be accepted as a good definition under our law also, as it follows closely that of Pothier; and in commenting on it, Mr. Mignault points out that the three necessary elements are:—1. A Writing. 2. That the writing proceed from the party or his representative. 3. That it renders the fact probable. Or as Lacoste, C.J., puts it (Watter and Cassidy, 3 Q.B. 270): "Le commencement de preuve est ce qui produit une demi persuasion, une présomption d'où on peut inférer l'existence d'un fait inconnu." An admission, being the strongest form of proof, or rather dispensing with proof entirely, may supply the want of a "commencement de preuve," but in such case it cannot be divided (Favret vs. Phaneuf, 15.49). A writing signed even by a cross, has been held to be a good "commencement de preuve," (Tru-

deau vs. Vincent, 15.231), but the writing must refer precisely to the fact it is sought to prove (*Laliberté vs. Roy*, 118.18).

The memorandum in writing, however, must be something more definite and exact than that which will satisfy a "commencement de preuve." In commercial matters, says Lacoste, C.J. (*Charest vs. Murphy*, 3 Q.B. 376), a "commencement de preuve" though completed by verbal evidence, is not equivalent to the writing signed by the party, required by Art. 1235. On this point we have followed the English jurisprudence in deciding that the writing must be actually signed by the party sought to be charged, and "must contain all the essential terms of the contract expressed with such degree of certainty as to render it unnecessary to resort to parol evidence to determine the intention of the party thereto." (*Benjamin*, p. 365, n. 1.) But it is not necessary that the whole of the terms of the contract should be agreed to at one time, nor that they should be written down at one time on one piece of paper (*Ibid.*, *Taylor Evidence*, s. 1026). "The written evidence required by the statute need not be comprised in a single document nor be drawn in a particular form. It will suffice if the contract can be plainly made out in all its terms from any writings of the party or even from his correspondence." The reference to other documents must, however, appear on the face of the memorandum signed by the party, and verbal evidence will not be admitted to prove such reference, but the reference being clear the document referred to may be identified by parol (*Ben.*, p. 365). The interesting case of *Jackson and Lowe* (3 Taunt, 169), held it perfectly clear that a contract for the sale of flour was fully proven within the statute by two letters, the first from Plaintiff to Defendant, reciting the contract and complaining of Defendant's default in not delivering flour of proper quality, and the second from Defendant's Attorney in reply to it, saying that Defendant "had performed their contract as far as it had gone, and are ready to complete the remainder," and threatening action if the flour was not paid for within a month. In another case (*Smith vs. Sarman*, L.R. 1, C.P. 224), the written memorandum was contained in two letters, one from the Vendor's Attorney, who asked for payment "for the ash timber which you purchased of him. . . . . the value amounts to £27.3.6. I understand your objection to complete your contract is on the ground that the timber is faulty and unsound, but there is sufficient evidence to show that

the same timber is very kind and superior." The Defendant replied: "I have this moment received a letter from you respecting Mr. Smith's timber which I bought *to be sound and good*, which I have some doubts whether it is or not, but he promised to make it so, *and now denies it.*" It was held that these letters did not constitute a sufficient memorandum of the contract to open the door to oral evidence, as the "object of the statute was that the note in writing should exclude all doubt as to the terms of the contract, and that object is not satisfied by the terms of the Defendant's letter." In this case had the Defendant omitted the last words "and now denies it" the letters would probably have been taken as a good memorandum, and evidence allowed to prove whether the timber was *sound and good*. But since there was a distinct dispute as to the terms of the contract itself, the plaintiff could proceed no further.

In a recent case decided in the Court of King's Bench at Montreal, Mr. Justice Hall, who delivered the majority judgment reviews in a clear and lucid style the jurisprudence on this point. As this case is particularly interesting and in almost every respect typical of nine-tenths of the commercial transactions that take place every day, we refer more minutely to it. The facts are as follows:—

On the 30th day of October, 1900, the customer called at the office of W., the merchants' agent, at Montreal, to examine certain samples of Japan Straw Braids and gave an order for goods of the value of \$479.89. The same day, W. forwarded this order to his principals in Toronto, who, the next day, acknowledged the same in the following letter addressed to the customer.

"Dear Sir:—

"We thank you for your order given Mr. W. one-half cases Jap. Braids. Kindly note, however, repeats will be spot cash. These are our terms on all straw braids. We thought it best to mention this now and avoid disappointment later on. Your order has gone by to-days mail, and we have requested shipment at the earliest moment."

Here follows a detail of the goods ordered and a note as to freight charges:—

"F. O. B. St. Johns, should freight be less than \$10 per cubic ton, allowance will be made, if it exceeds \$10 difference will be charged."

After receipt of this letter, on the 7th November, the customer wrote from St. Johns as follows:—

"I am just arrived from New York and take notice of your letter dated 31st October. Our conditions are that the straw is paid F. O. B. St. Johns, P.Q., consequently I have nothing to do with the freight. If \$10 less or more it will be your profit or your loss."

The letter was forwarded by the merchant to W. with instructions to see the customer and arrange the matter with him. W. believed that he had telephonic communication with the latter in which the dispute was satisfactorily arranged. It will be noticed that at this time the only objection the customer made to the terms of the contract was that the goods were to be delivered absolutely F. O. B. St. Johns.

During the month of January the customer inquired several times about the arrival of this shipment and W. wrote him on January 23rd that the goods were on the way and would be delivered shortly. On the 11th of February, the buyer wrote to the merchant cancelling the order on the ground that the goods were too late. The goods arrived at St. Johns on the 2nd day of March, 1901, and delivery tendered to the customer, after the passing of the customs entries, about the 15th of the same month, when he refused to accept or pay for the same. In answer to the action the Defendant admitted having given an order to W. for the goods in question, but he denied that this order was given on the 30th October and that the goods were to be delivered in due course; he denied that the merchant accepted the order under the terms and conditions which had been given to W.; the letter of the 31st of October not being according to him, such an acceptance. He specially alleged that he called on W. at his office in Montreal, where he placed an order on condition that samples should be sent him at once, and that the goods themselves should be delivered in eight or ten weeks; that it was then understood between him and W. that the latter would immediately cable to assure himself that the goods would be delivered in the agreed on time; that under the original contract there was no agreement to pay any freight in excess of \$10 a ton and that having received neither the samples nor an answer to his letter of the 7th of November, he concluded that the merchant had abandoned the contract. He added that at the date of the arrival of the goods his season for the manufacture of hats had past and they were

too late to be of any use to him; and finally that the straw delivered was not of the quality which he had ordered. At the first trial, the Defendant objected to the introduction of verbal evidence on the ground that there was no memorandum in writing to prove the contract. From the judgment maintaining this objection the Plaintiff appealed to the Court of Review, where the ruling was reversed and it was unanimously decided that "the Plea contains a complete judicial admission of the order and that the letter of the Plaintiff accepting the order, and filed in the Record, is also admitted by the defence, although the Defendant wrongly pretends that it does not amount to such acceptance, and that thus the contract itself is established and the contestation is limited to three points raised by the defence, which are susceptible of verbal proof". The case was then reheard in the Superior Court where on the examination of witnesses it was proved that the terms recited in the vendor's original letter were practically those to which the customer agreed with the agent, and the action was maintained. But the Defendant still contended that the letters did not constitute a memorandum sufficient to satisfy the terms of article 1235 and that the admissions in the Plea could not be divided to allow the introduction of verbal evidence. The second point is purely legal, and of less interest to the business man than the first; we accordingly pass at once to the remarks of Mr. Justice Hall, who confines himself almost exclusively to the less technical question, and after supplementing the authorities, to which we have already referred, by others in the same sense, sums up the case as follows:—

"Now let us apply these texts of law, in the spirit above indicated, to the facts of the present case. The vendor (plaintiff) neglected to provide himself with the written order signed by the purchaser (defendant) which our law requires. He attempts to supply its place by a letter of his own and one from Defendant in reply which have been quoted above. It will be seen, on examining them, that the vendor's letter makes no allusion to the important condition in such a contract—the time of delivery—and the defendant's, evidently written in haste upon his return home from New York, contains nothing but an impulsive protest against an alleged right to collect from him all freight charges in excess of \$10 per ton. Can these two letters be treated as the equivalent of the writing which 1235 C. C. exacts? It can, at least, only be done

negatively, that is, by assuming that defendant accepted all the conditions, expressed or *implied* in plaintiff's letter which he, defendant, did not specifically deny in his hasty reply. But defendant asserts that by the contract, delivery was to be made in 8 or 10 weeks and that as plaintiff's letter said nothing to the contrary, he assumed that they were of accord on the point and hence that no reference to it was necessary. He did find, as he contends, a new condition introduced, that in respect to his liability for freight, and this he repudiates most vigorously, in the only "writing signed by him" which the plaintiff produces, to prove the contract as alleged by himself, and this variation would, in my opinion, be sufficient alone to maintain defendant's objection as to the admissibility of verbal evidence. The plaintiff never replied to this letter and he now attempts to minimise its importance by alleging that the freight charge proved to be exactly \$10 per cubic ton, and therefore no claim was made against defendant on this head. But this was merely accidental and an event *ex post facto* which cannot now be invoked to determine what was the effect of plaintiff's claim on 31st October to exact freight as a part of the price of the goods and defendant's repudiations of it on 7th November. *The claim was not waived* in answer to defendant's objection and therefore stood as an item of *disagreement* in the correspondence which plaintiff now invokes as a compliance with the requirement of C. C. 1235. The notes (correspondence) must agree in their terms if both are offered or the "memorandum" will be insufficient (Am. & Eng. Ency.). This divergence in terms was such, that, under such conditions as now exist, when Japan is in a state of war, its enforcement might have doubled the price of the materials which defendant was purchasing and cannot be said therefore to have been of so trivial a nature as to have left the parties of accord as to the terms of their contract? Upon plaintiff's neglect to answer defendant's letter of November 7th either of the parties might legally, I think, have treated the bargain as off and neither would have had recourse against the other in damages."

Merchants will do well to consider carefully the effect of this judgment. No letter will be admitted as a sufficient memorandum of the contract unless there is a definite and unmistakable admission of all its terms, any objection on the part of the customer will defeat the vendor's right to use the letter as a basis for oral evidence. However, should the customer make no objection to the terms of the contract as recited by

the merchant, but simply write refusing the goods, his letter may be used in conjunction with the invoice or a letter from the latter, as a memorandum to permit the examination of witnesses. In a leading English case (*Wilkinson vs. Evans*, 35 L.J., C.P. 224), the customer wrote on the back of the invoice refusing the goods because damaged, and the merchant was allowed to offer verbal testimony to prove that the goods were in good order. And in another case (*Elliott vs. Dean*, 1 Cababe & Ellis, 283), where the customer returned the invoice in a letter cancelling the order, it was held that the two might be taken together to satisfy the Statute of Frauds.

It will in all probability seldom happen that there has been an exchange of letters between the buyer and the seller, and other memoranda have been held sufficient to satisfy the Article. For instance in a case where a memorandum of the sale, setting forth the name of the purchaser, the price and all other details, was entered in the Plaintiff's books his own name appearing at the top of the page, it was held in *Sarl vs. Bourdillon* (26 L.J., C.P., p. 78), that there was sufficient evidence of the existence of the contract to permit the examination of witnesses; but should the vendor's name not appear in the book, although the entry be initialled by the vendee, it will not be sufficient (*Jacob vs. Quirk*, 2 M. & Rob, p. 201). In larger transactions that are completed through the ministry of a Broker, a sold note bearing his signature when he acts for both buyer and seller will also be a satisfactory memorandum (*Parton vs. Crofts*, 10 L.T., p. 34); and even a signed entry in the Broker's books alone (*Thompson vs. Gardner*, 1 C.P.D. 777). In these cases, of course, the Broker is presumed to be the agent of the buyer with authority to sign for him and any memoranda signed by the Broker is regarded by the Court as issuing from his principal. An auctioneer, who is an agent lawfully authorized by both parties can establish a satisfactory memorandum of the fact of the sale by entries in his books (*Emerson vs. Hales*, 2 Taunt, p. 38). It is essential, of course, in all of these cases that the memorandum precede the institution of an action.

#### *Acceptance or Receipt of the Goods.*

In the great majority of cases, however, there is no memorandum of the contract, and should it be denied by the customer, the merchant will have no recourse unless the goods



have been actually accepted or received. There is an important difference between our Article and the Statute of Frauds, that governs the English law on the question, in virtue of which the position of the merchant in the province of Quebec is somewhat improved. The Statute requires both acceptance and actual receipt, while our Article calls for acceptance *or* receipt, and the proof of either, which may be made by oral evidence (*Munn vs. Berger*, 10 S.C.R., p. 512), will admit similar proof of the contract itself.

"The question of acceptance or not is a question as to what was the intention of the buyer as signified by his outward acts, and if he refuses the goods assigning grounds false or frivolous, or assigning no reasons at all, it is still clear that he does not accept the goods, and the question is not whether he *ought* to accept, but whether he *has* accepted them." The acceptance is more definite than mere receipt. For instance the buyer often receives the goods for the express purpose of examining them to see whether he will accept them or not, and under the English law the mere receipt would not entitle the seller to prove the sale verbally. The effect of the acceptance or actual receipt of the goods or part of them, for the acceptance of part makes the contract good for the whole, even in cases where some of the goods are not yet in existence, but are to be manufactured, is to prove that there was a contract of sale and this effect is produced although there may be a dispute between the parties as to the terms of the contract, such a dispute is to be determined by parol evidence, and it is only for the admission of such evidence that this acceptance is considered. When the goods have been accepted or received, litigation may arise on various questions, for instance as to the price at which the goods were sold; whether the sale was for cash or on credit; how payment was to be made; or the time within which delivery was to be effected; or as *Cotton, J.*, says (*Kibble vs. Gough*, 38 L.T., N.S., p. 304): "All that is wanted is a receipt and such acceptance of the goods as shows that it has regard to the contract; but the contract itself may yet be left open to objection."

The test for determining whether there has been an actual receipt by the purchaser is to inquire whether the vendor has lost his lien, whether he has divested himself of the ownership of the goods, and it does not necessarily involve a manual taking possession on the part of the purchaser (*Benjamin*, p.

209; Brown, Statute of Frauds, p. 420). Such an abandonment is effected by the delivery of the goods to a common carrier in pursuance of the contract, and acceptance by the carrier for conveyance to the purchaser or place designated by him is sufficient to allow oral evidence. In such case the carrier is considered to be the agent of the person to whom not by whom the goods are sent, but he must have been designated by the buyer, otherwise he will be regarded as the agent of the seller (Benjamin, p. 203). This ruling has been followed by our own Courts in the case of Booth vs. Hutchins (14 L.N., p. 23), where it was held that when goods were shipped in the name of the vendee to an address indicated by him, possession was vested in him and he was deemed to have accepted and received the same. To constitute this acceptance or receipt, it is, of course, unnecessary that there should be any express indication of the purchaser's intention, and the weight of authority establishes that a tacit acceptance by his silence or delay in notifying the seller "will be a question of degree, that is, a long unreasonable delay will afford stringent proof of acceptance, while a shorter time would merely constitute some evidence that is to be taken into consideration with the other circumstances under the case." (Benjamin, p. 136.)

The acceptance may be prior to actual receipt by the buyer for instance if he has inspected and set aside the goods in the warehouse of the seller. But there must be definite evidence of his intention. In the case of Ross vs. Hannan (19 S.C.R. 227), it was contended that a sale of cheese was completed and the property had passed, because the defendant selected, examined and set apart the cheeses, and ordered a large number to be removed from the second floor to the ground floor; and after the goods were damaged by water—one of our old-time spring floods—action was taken for their value. The Supreme Court dismissed the action on another ground but Mr. Justice Paterson expressed the following opinion:—

"The acts done in the warehouse in the examination of the cheese, whether the removal of the boxes from the upper floor to the lower for the convenience of handling them were done by the servants of the purchaser with the consent of the vendor, or by the vendor for the convenience of the purchaser, do not strike one, having regard to all the circumstances, as proving delivery or acceptance, or as necessarily amounting to more than steps which might reasonably be taken as prelimin-

ary to the delivery and acceptance that would change the property from the one man to the other"; he, accordingly, held that the plaintiff should be non-suited because oral evidence might not be introduced. The Courts are still more strict where goods are sent on approval, or with the object of testing the market, when the evidence necessary to establish acceptance must be much clearer and more positive than if the goods were consigned to order in the usual way. So, where two cases of accordeons were consigned, without order, but amongst other goods ordered, and the consignee paid the freight bill upon the whole consignment, but complained of the price and quality of the accordeons and declined to accept, unless certain deductions were made for broken articles (which offer was not accepted by the consignor), it was held that the payment of freight and the opening of the cases was not sufficient to constitute acceptance of goods not specially ordered (*Trester vs. Trester*, M.L.R., 5 S.C., p. 188).

### *Earnest.*

The giving of earnest to bind the bargain, in virtue of which oral evidence may be offered in proof of the claim, is no longer in general use. But the custom is sometimes observed, and a few words in explanation may not be out of place.

In the Roman Law there were two kinds of earnest, first that given to bind the bargain, *arra in signum bonisensus interpositi data*, which was introduced into England, and thence to the article of our Code now under discussion, and that given as a forfeit *arra quæ ad jus poenitendi pertinet*, which we have copied directly from the French law in connection with a promise of sale, or an option. In the second case either party may escape from the obligation by forfeiting the earnest, or returning double the amount; but in the former there is no escape, the contract is binding, and the earnest being admitted or proven oral evidence may be introduced to prove what the contract was. It is obvious that the great difficulty here is to decide to which class of earnest the payment belongs. The weight of French authority is in favour of considering the relative amount of the payment. If the earnest is so small and insignificant in comparison with the total price of the goods sold, it must be considered as establishing the irrevocable existence of the contract, from which neither party can escape; but

should it be an amount which neither would willingly lose or abandon it is considered as a forfeit which will relieve them from the obligation (Pothier, *Vente*, s. 138; Durvergier, *Vo. Arrhes*, No. 16; Sirey, C.N., 1590). Of the second class, article 1235 makes no mention, and the earnest there referred to is evidence of the definitive character of the sale.

Although there may be technically a distinction between earnest and part payment, in practice they amount to the same thing, for as Blackstone says (II, 447): "If any part of the price is paid down, if it be but a penny the contract is binding." Something must be actually paid, however, and the obsolete custom of crossing the sellers hand with a shilling will not open the door to oral proof. (Benjamin, p. 162.) It must not be supposed that the earnest is proof of the completion of the sale, of the passing of the property from the seller to the buyer, its only legal effect is to afford conclusive evidence that a bargain was actually completed with mutual intention that it should be binding on both parties.

The part payment in order to make the sale good need not be made in money, but anything of value which by mutual agreement is given by the buyer and accepted by the seller "on account" or in part satisfaction of the price will satisfy the requirements of our article. (Benjamin, p. 165.) The American jurisprudence has decided that where a sale is made on an agreement that the price shall be applied on the payment of a precedent debt, such price must be actually applied by a receipt or otherwise, to bring it within the exception of the Statute of Frauds.

In applying these rules of proof to business, it is essential to bear in mind that the contract itself cannot even be discussed by the seller or his agents. He may have indisputable evidence that the sale was completed, that the goods were actually bought, but if there be no memorandum, if they have not been accepted or received by the buyer, or if no earnest were given, he may not offer verbal evidence, and the Court cannot hear any testimony at all as to the terms and conditions of the sale. As we have already said it is doubtful if business men realise the restrictions that are thus placed on the proof of commercial sales, and they are surprised and indignant when an action for the price of goods sold is dismissed without recourse, not because there is no proof, but because the proof is

inadmissible. The conclusion to be drawn is that, though in ninety-nine cases out of a hundred relying on the good faith of the other party, the sale is satisfactorily concluded, the only safe course is to have some acknowledgment in writing of the order. This would be a safeguard for both seller and buyer, for the buyer might be deprived of his rights in a rising market, even as a seller might lose his recourse when prices drop. The law, framed in the interests of merchants themselves to prevent unfair litigation, comes in for a great deal of impatient animadversion, when the litigant himself is to blame for not having protected himself against possible misunderstanding, if not wilful dishonesty.

A. RIVES HALL.

## BANKING IN ANCIENT BABYLONIA.

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**W**ARNINGS against allowing the spirit of commercialism to have supreme control in the world are frequently heard at the present time. Such are not unneeded, for if a nation has no ideals above mere money-making it is certainly in a perilous state; yet it must not be forgotten that commerce is and has been one of the greatest civilising influences in the world. Babylonia for example was one of the most thoroughly commercial nations the world has ever known, and therefore its civilisation was more advanced, the mass of its people had more rights, and these rights were better protected than in any other country until the rise of the commercial nations of the last few centuries.

While commercialism in itself is insufficient to bring a nation or a people to the highest levels of civilisation it is absolutely necessary for a most important stage in the process. Ordinary honesty in truth-telling, which underlies all business, and without which no commerce worthy of the name could exist, is a product of the growth of commercialism. The liberty of the individual, and the fundamental equality of all men, irrespective of the social status of parents are made available by the same means. Commerce can live and thrive only where the rights of the individual are adequately protected, and in business more than in any other sphere of human activity the man of brains, no matter what his origin may have been comes to the front. The freedom and equality of woman is another gift from the same source. Where people are all keen in business, a woman with business ability has a chance as well as a man. Then in a commercial community private wealth increases, and the daughters of a rich man come in for a share in his estate, either by dowry, or by inheritance, and in such a society a woman with money of her own soon attains to a considerable degree of freedom.

A fourth fruit of commercialism is the love of popular education. In the business world early training means much, and a great measure of this training education supplies. "Give a boy a good education and he will make his way," is almost an axiom among a business people.

The ancient land of Babylonia exemplifies well what commercialism can do for a country, and it is, until modern times, the only example of a thoroughly commercial nation of which we have sufficient records to enable us to see into the life of the people.

As to truth-telling, naturally we cannot find much proof one way or another, but from what we can gather they seem to have been a reliable people. It is true cases of dishonesty appear, as when, for example, a woman is found guilty of trying to collect a debt a second time, but cases of such dishonesty are not unknown even in the present time.

The rights of the individual were carefully safeguarded, and that from very early times, as is seen from the Code of Hammurabi (2250 B.C.). A man by his talents could rise to high place no matter what his origin may have been, and even a slave in business, or in giving evidence before the courts, has the same privileges as a freeman. It was no uncommon thing for a slave to be adopted into the family of his owner, and become his heir. Women were certainly very free. A woman could hold property, could enter into a business partnership with her husband or with any other person, could testify in the law-courts, and a married woman had rights in regard to her own possessions such as have been granted in England and Canada only within the last forty years. Education was widespread among all classes. Among the upper and middle classes illiteracy seems to have been comparatively rare, witnesses to transactions being generally able to write their own names, instead of making their mark, and the many examples of letters which have been found show remarkably good spelling. Educational advantages were available also to the children of the lower classes; the inscription on one tablet states that it was written by A son of B the irrigator, i.e. the writer was the son of a common ditcher. The social conditions in this ancient land going back to a time much farther on the other side of Christ than we are on this side, will be more appreciated if we compare them with those existing among our own folk in the Middle Ages, when the common people

were mainly serfs, and had no rights against the barons; when women were in a state of degradation; and when a powerful lord would boast,

“Thanks to Saint Bothan, son of mine,  
Save Gawain, ne’er could pen a line.”

But commercialism is itself a development due to certain causes operating from within or from without. If from within one of these may be a national aptitude for business, but by far the most important certainly is a land which is not too kind, a country which is a stern, niggardly mother to her children, making them earn their living by the sweat of their face. Such a mother was Babylonia. Naturally unproductive, being given over to marsh and desert, it was only by the greatest labour in irrigating and dyke-building, that land was reclaimed and made arable, and it required incessant, arduous work to keep that which was gained from being retaken by the ever hungry desert and swamp. Babylonia in its best days was the most fertile spot in the world, producing enormous crops of wheat, whose native home it is, and other cereals, but from laws, and private letters we gather something of the hard life and drudgery of the farmer. It is but natural then that such a school should develop shrewd bargainers, and canny men of affairs, who would seek to add to their income by the easier methods of trade.

In some such way Babylonia began its great commercial career laying thereby not only the foundation of its own wonderful civilisation, but at the same time of ours also, which is directly or indirectly indebted along all lines to the ancient culture of the Euphrates valley.

In the beginnings, commerce would be restricted mainly to the home-land, but it gradually spread outwards, taking in many countries, and giving the lands to which it extended an impetus in the same direction. In the time of Sargon of Akkad (3800 B.C.) we find the Babylonians trading as far east as the shores of the Mediterranean Sea, and perhaps, as some think, extending even to the island of Cyprus. From the period of the first dynasty of the city of Babel (2300-2000 B.C.) there comes to us a great deal of information regarding the conditions of the times, given to us by business tablets, royal and private letters, and especially by the famous Law-



code of Hammurabi (probably the Amraphel of the Abraham story), which was discovered a little over two years ago. These show us a busy commercial people governed by laws, strict and severe yet on the whole very just. There is a postal system for the conveyance of correspondence between the various cities, and the great number of letters so far found show that the system was extensively employed. In the 14th century B.C., from the Tel-el Amarna tablets, letters which were sent from Babylonia, Assyria, Palestine and Cyprus to Akhenaten king of Egypt, the postal system is seen to be extended to the whole west land, and a continual interchange of commodities went on between these nations. From about 2000 to 800 B.C. our sources of information about the business life of the community are much fewer, but from the latter date to the close of the history of Babylonia there are many thousands of business tablets, a great number of which came from the ruins of the strong room of the great banking house of the Egibis.

The Babylonians were exceedingly methodical in their business operations, every transaction being formally recorded, signed and sealed, and a copy taken by each party. The writing material was clay inscribed on by a stylus. A tablet of soft clay was prepared, and upon it the transaction was written out, and signed by the contracting parties, and their witnesses. Any one unable to write impressed his thumb nail upon the clay, the name being written by another. Men of standing had seal cylinders of hard stone, on which were engraved the owner's name and coat-of-arms, this was run across the soft clay leaving the seal impression. If the matter were unimportant the tablet was allowed to dry in the sun, otherwise it was baked in a kiln, giving a very permanent record. The tablets were generally small, large ones being hard to bake well, but a great deal of writing could be put on one. They themselves sometimes used a magnifying glass. In the case of an important document which might be tampered with, it was carefully enclosed in a case of soft clay, upon which the whole agreement was again written and signed. This was then baked, and in case of any dispute the outer shell would be broken off, and the original read. An envelope of this kind was also used for letters sent by mail, but only the address was written on the outside.

At first business would be all merely barter, but very soon silver and gold began to be used. The metals were in bars.

which had to be weighed at every transaction, but after 600 B.C. the bars were sometimes stamped, and thus became current coin. The money table was,

60 shekels	.....	1 mina,
60 minas	.....	1 talent.

The talent was rarely used in ordinary affairs, the mina and the shekel being the regular weights. Gold coins were not in common use, silver was the common medium. So much was this the case that the word for silver, like the Scottish word *siller*, is also the word for money. A memorandum of the time of Nebuchadnezzar the Great shows the relative values of gold and silver at that time to have been about eleven to one.  $5\frac{1}{2}$  shekels of gold are exchanged for  $55\frac{1}{2}$  shekels of silver, but three of the gold weights are worn and deficient in weight. There has been found a mina weight, which states it was made from the standard weight of Nebuchadnezzar; the weight is about 2 lbs. 2 oz. The silver mina was worth about \$45, the shekel about 75c. Payments in grain were made in the *gur* or *qa*; the *qa* being about three pints, the *gur* 180 *qas*.

But business is continually requiring ready money, and farmers would often have payments to make before the crops were ready for the market, hence borrowing was largely resorted to. The professional money-lender goes back to very early times. The regular rate of interest was one shekel per mina per month, or 20%. In ancient times the rate may have been a little higher, and in Assyria which was not a commercial nation the interest was sometimes as high as 33%. In the times of the Neo-Babylonian Empire, and after the Persian Conquest the normal charge was 20%. Very often it was lower. In one contract of the time of Nebuchadnezzar the interest is  $16\frac{2}{3}\%$ , and in another it is down to 10%. A Babylonian contract dating from the Assyrian period has the interest as low as 5%, but this may be because of depressed conditions due to the political troubles; for probably the same reason, a member of the Egibi firm lent a sum of money to a man and his wife without interest, only stipulating that it should be repaid when the land was again prosperous.

The interest was reckoned at so much per month, and in early times was probably collected monthly. Latterly it was paid annually, and was then often at a somewhat lower rate than the normal 20%. In some transactions it is agreed that the interest shall be charged only after a certain date so that

in one way or another the large interest was in many cases modified. Still a man in debt could easily go from bad to worse. Especially was this the case with the farmer. The merchant had, it is true, many risks to run, especially in the foreign trade, but there was always the chance of enormous profits such as the agriculturist could not hope for. Between the heavy taxes, the statute labour required to keep the irrigation canals in repair, and the danger of poor crops the farmer's life was no easy one; if to all this a heavy interest were added, it could easily become a hopeless struggle. A law in the Code of Hammurabi, however, seems to mean that if a farmer's crops were a failure, his debts could not be collected that year, nor did he need to pay interest.

Gradually the money lender developed into a large banking house carrying on a widespread financial business. The best known house of this kind was the bank of Egibi, established in Babylon before the time of Sennacherib (705 B. C.), and which existed down into the Persian period. After Babylonia achieved her independence of Assyria (625) the family became the Rothschilds of their time. There are records of other banks contemporary with the Egibis but of less importance; of the firm of Murashu and Sons a considerable number of documents have been found. This bank was not in the capital but in a provincial town. There is some evidence of such houses as far back as 2000 B. C. The most of the illustrations of the business carried on by a banking house in the ancient empire which I shall quote, will be from the records of the Egibi Bank.

To begin with, however, I shall quote a note given before the time of Hammurabi (2250 B.C.): "Kisnunu, son of Imursin has received  $1\frac{1}{2}$  minas of money (silver) from Zikulun on which he will pay 12 shekels of money as interest. The capital and interest are to be paid on the day of the harvest as guaranteed." A number of the documents of this early time refer to the loan of grain, some of the loans being made by temples, which were probably the first banks.

The banker always sought to have full security for his loans and took mortgages on land, houses, slaves or other property. In the mortgage there is generally a clause giving the creditor first claim. "1 mina 18 shekels money which Liblut, son of Itiru, owes to Parshu, son of Nadin-aplu, son of Egibi. Interest shall be one shekel per mina per month. In the month Tashrit (September) will he pay. His goods and the property

he has in company with his brother is security for Liblut. No other creditor shall have any claim until the debt is paid." Another with more exact definitions is "2 minas money is due to Nirgal-rizua, the slave of Marduk-balatu, son of Egibi, from Bilit-tashshi, son of Andahar, and Sini-bana his wife. Their house which is in Hubur street, between the house of Nadin, son of Hununu, and the house of Nabu-ahi-iddin, son of Busu is security for one mina; house rent there is none, interest there is none. The interest on the other mina shall be 12 shekels per annum. No other creditor shall have any claim until Nirgal-rizua has received his 2 minas. The one for the other guarantees. From the 2nd Marcheswan will the interest on one mina be reckoned."

In case of bankruptcy the secured creditor was paid in full first, and what was left of the assets was divided among the other creditors. Thus when a man named Nabu-apal-iddin was forced to make an assignment, the creditors took possession of his property and sold it, receiving 12 minas. Of these, eleven had to be paid to satisfy the claims of preferred creditors, leaving only one mina for the others. The Egibi firm handle the matter and pay creditors, seemingly acting as assignee, as they do not appear to have had any claim against the estate.

The bank also received money on deposit. One document is a receipt given to the Egibis by the secretary of Girai, a slave, for  $4\frac{1}{2}$  minas and interest, in all  $5\frac{1}{2}$  minas, which were owing Girai by the bank. His secretary gives the receipt and returns the note given by the bank. It is interesting to notice that one party is a slave who is banking a large sum of money, and who has a private secretary of his own, a freeman, who acts as his agent. It is quite a common thing for an agent to act as with power of attorney for a principal, giving receipts and transacting business in his name. Belshazzar, the prince mentioned in Daniel, was an energetic man of business, but always acted through an agent. This prince seems to have been a private banker; he certainly lent money on mortgage. He also carried through some large transactions in wool.

In 555 B. C., a woman named Gugua and her son deposit 5 minas 2 shekels with the Egibis, the interest to be  $\frac{2}{3}$  shekels per month per mina. This is but 13 $\frac{1}{3}$ % so that it would seem as if the bankers gave a lower interest than they demanded; still other agreements show the Egibi bank paying the normal 20%. This Madam Gugua is evidently a woman of resource. In the following year (554) there is a deed in which she makes

over to her son a considerable amount of her property, some of which is deposited with the Egibis while the rest is lent to various parties. The son agrees to provide his mother with food and clothing as long as she lives, and undertakes not to alienate any of the property. Fifteen days later she executed another deed, which shows that in the meantime she had got married again, and to her new husband she makes over certain moneys, which are however to remain on deposit in the bank as long as she lives, and if she survives her husband they are to return to her. One would like to know what the son thought of all this.

One receipt given by the bank has a peculiar clause inserted in it, which evidently means that neither the deposit, nor any part of it could be held for any claim against the depositor. He has the right to demand cash payment in full. This is perhaps to guard against the bank buying in any of his notes.

Payment by check was followed, thus one tablet is a check given by a man to his brother with which to pay for certain dates. It was a very common thing to pay through the bank. Personal securities were also given, the one guaranteeing that the other, the debtor, will pay within a certain time. Sometimes the security is against the debtor fleeing the country. The technical term is the graphic expression, "to loose the foot of the debtor out of the hand of the creditor." "For the foot of Nabu-zir-lishir, son of Bit-usallim, out of the hand of Gimil-Shamash son of Marduk, Diditum daughter of Nabu-zir-lishir goes security. If he should leave the country, Diditum will pay the 35 gur of dates which are due." Here we have a daughter going security for her father.

If a debtor failed to pay, and had no assets, the creditor, or surety who had had to pay for him, could get an order from the court securing to him the person of the debtor, who then had as a slave to work off the debt. An act in the Code of Hammurabi decrees that such a slave could not be held for more than three years. Certainly the law of 2250 B. C. was much more humane and Christianlike than the law in Christian England in 1780 A.D., when a woman died in a Devon jail after an imprisonment of 45 years for a debt of £19.

Even when a mortgage was foreclosed the debtor frequently had power to redeem. Some agreements state that if the debt be not paid by a certain time the pledge belongs to the creditor, e.g. the Egibis in 509 B.C. lend 3 minas on two

slaves, and stipulate that if the money be not repaid by the 20th Nisan, the slaves become the property of the bank. In some agreements power to redeem after foreclosure is barred.

Notes were evidently negotiable. They were often made for a certain time; one held by the bank in 503 was for two months. When a debt was paid the note signed by a debtor was returned to him. If the note were not at hand, by having been transferred, or put in safekeeping, an interim receipt was given. On the 10th Nisan, 510 B.C., the bank settles an account against it of 11 minas 43½ shekels, the creditor gives an interim receipt and undertakes to hand over the original instrument in ten days. The Babylonians were exceedingly strict about receipts. The Code of Hammurabi instructs agents to give a receipt for all goods received and to get a receipt for all money paid over.

A common form of mortgage gave the creditor the use of the security in place of interest. An example has already been quoted, where the slave Nirgal-rizua lends two minas, taking a house as security for half the debt; he pays no rent for the house and gets no interest on the one mina. The bank on one occasion took a field in this way, but the agreement stipulates that if the field do not produce enough to meet the interest the debtor shall pay the balance, and if it produce more than the interest the bank is to hand over what is in excess to the owner.

A mortgage could be given as security. Bunanitu, an enterprising, business woman, in partnership with her husband, —as we learn from her evidence in a lawsuit she had with a brother-in-law after she became a widow,—in 546 B.C., lent 35 shekels taking as security a chattel mortgage on a slave. Soon after, she evidently finds herself in need of cash, and borrows 30 shekels giving as security her mortgage on the slave. The owner sells the mortgaged property with two other slaves, for 2 minas 50 shekels, to a buyer who acts through the Egibi house. The bank pays Bunanitu 35 shekels thus releasing her mortgage; she in turn pays the 30 shekels she owes and receives back her mortgage; the bank then pays the balance to the seller taking from him, however, a receipt in full for the whole sum of 2 minas 50 shekels.

The Babylonian bank did not handle money merely, but also all kinds of real estate and goods. Mortgages would be foreclosed, or interest and debts paid in kind; also a bank seems to have acted sometimes as agents for a temple, a great

deal of whose income was in kind. In one way or another the bank had always a great deal of property on its hands which had to be made more profitable. A very common procedure was to go into partnership with some person or persons. Sometimes the bank supplies all the funds, and as sleeping partner receives half of the income. If the active partner brings in any money they share proportionately, and a certain sum is taken out before the sharing is done, evidently as salary for the managing director. Sometimes the bank binds the parties thus financed to go into no other business except the one they carry on with the bank, and to give their whole time to the enterprise. In some cases the merchant agrees to pay a certain annual interest for the use of the money.

Frequently the bank gives a stock to a merchant with which to trade, the bank receiving either an annual interest in money, or a share in the proceeds; thus the Egibis gave 100 gur grain, 50 gur dates, 60 jars of spices and the use of a house to two partners, one a slave of the lender, the other a freeman, for three years at a rent of 2 minas per annum. On another occasion the bank gives 57 gur dates, and receives a share, the principal to be paid back in three years. One agreement records a partnership between an Egibi and Bil-ikisa, a member of a rival and smaller house, each party putting in 50 gur of dates. Why the important bank of Egibi should enter into partnership with a minor house in a little affair like this is not clear. It may be a union of agencies in a small place. That they had agencies and correspondents is most likely; the affairs they financed were practically agencies. The members of the firm travelled widely, many of the tablets being dated from distant cities.

The bank possessed a great deal of real estate which it rented. House rent was payable half yearly, the term days being at the first and at the middle of the year, that is in March and September. In a case of arrears of rent, one tablet gives notice to a tenant to pay up and quit. In the lease the tenant generally undertakes to make minor repairs as they are needed, if greater repairs are done by the tenant the landlord makes compensation at the expiry of the lease. Farms were sometimes rented for a fixed sum, but more often on shares. The Code of Hammurabi provides that if a farmer be lazy or negligent so that the farm does not produce as much as it should, the landlord's share is to be determined by the average crops raised on the neighbouring lands; a four thou-

sand year old hint at the single-tax theory. In buying a house on one occasion, a member of the Egibi firm gave 6 shekels to the wife of the seller; this is said to be in accordance with an old custom. In another tablet, a lease, the banker directs that the money be paid to his wife, but whether the house was part of her dower, or was given to her for pin-money, is not stated.

A favourite article of property for mortgage was a slave. Of those the Egibi firm possessed a great many. They frequently hired them out, at so much a day or month, or if the slave was promising they would set him up in business. It was thus possible for a slave to earn sufficient to buy his freedom. On one occasion 2 minas are lent to a slave girl who wanted to set herself up in business. The occupation is not stated, but very likely it was to open a hotel, the keepers of which were often women. Another less creditable transaction is where a female slave is either the keeper or an inmate of a house of ill-fame, the bank receiving three-fourths of her income. Young slaves were often apprenticed to a trade; in one indenture the bank binds a slave to a weaver for five years, the master undertaking in that time to teach the youth the whole trade, or else pay a heavy fine, the bank meanwhile supplying him with food and clothes.

The bank was also an owner of cattle. Oxen and especially cows were frequently rented out for a certain time for a certain sum. It was also much interested in shipping, possessing a number of vessels. One tablet records the hiring of a captain for one of these at 8 shekels a month. A rather interesting document is an agreement between a shipping company and a temple, in which the shipowners agree to pay a regular premium to the priests, who on their part are to read the signs of the sky and keep the company informed of the weather probabilities.

The bank also became security for others, e.g. it guarantees the payment of a debt to the king's son, giving the prince first claim on certain property. One tablet found is a bail bond upon which a prisoner had been released from jail. The giver of bail does not seem to have been an Egibi, although the bond is lodged with the firm. It was a regular practice for customers to store their valuable documents in the bank's strong room, where they were kept in jars. Hence many of the documents unearthed in the ruins of the bank have nothing



to do with the business of the house. For example one is the decision of the Supreme Court of six judges in the case of Bunanitu already referred to. Another is a will which a man has made in favour of his father. It would almost seem as if the will had been drawn up by the bank, and witnessed by some of its members.

Naturally such widespread interests necessitated many appeals to the law, and the Babylonians seem to have been fond of a "guid-ganging plea." In one important dispute instead of going to law an arbitrator was called in, and his finding is given in full. In one dispute between two men, probably heirs, over some money deposited in the bank, the bank declares that on a certain day it will hand the money over to the courts, or if it fails to do so it will pay interest to the plaintiff. There was a large "connection" of the descendants of Egibi the founder of the house, and they had many law suits with one another.

With some of its customers the bank had an agreement that accounts should be balanced periodically, but this is seldom arranged for. A day book of the bank has been found, as also some of its statements to customers.

It will thus be seen that banking in Babylonia did not lack variety, and I trust I have said enough to give some idea of the extended business ventures undertaken by individuals or firms in that ancient kingdom.

## CAN A NEUTRAL LEND MONEY TO A BELLIGERENT?

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THAT money may become contraband of war, if remitted to a country for its assistance in conducting a campaign, is of interest at the present time when Japan and Russia are both likely to be seeking the sinews of war from neutral nations.

The London *Economist* gives the following advice to those contemplating affording monetary assistance to the belligerents in the contest now raging in the country "east of Suez":—

Neither reason nor authority can be opposed to the statement that it is a grave breach of duty for a neutral State to give or lend money to a belligerent one. When Chancellor Kent says that "even a loan of money to one of the belligerent parties is considered to be a violation of neutrality," he emphasizes the fact that he is referring to public loans by citing Pickering's instructions of March 2, 1798, to Messrs. Pinckney, Marshall, and Gerry as to a proposed loan from the political representatives of a neutral State to a belligerent one. Under such instructions, the American envoys declined to consider the application of the Directory for a loan of thirty-two millions of Dutch florins to France, then at war with England. A neutral Power has no right to guarantee a loan issued by its belligerent friend.

Usage has entirely discredited those writers on the law of nations who have attempted to give an unreasonable and impracticable extension to the foregoing rules by denying, directly or by implication, to individuals composing a neutral community the exercise of a right withheld for obvious reasons from the State as such. Bluntschli claims in direct terms not only that a State must abstain from the making of loans for war purposes, but that the rule is equally applicable to loans negotiated by private individuals. Phillimore, after criticising Vattel, opposes both classes of loans as "a manifest frittering away of the important duties of the neutral," a conclusion to which Halleck definitely subscribes. Calvo, while admitting

that all loans made during war are illegal, holds that as the neutral State can not control the acts of individuals in certain commercial transactions, it can not be held responsible for their consequences. Phillimore and Halleck rest their contention mainly upon the dictum of Lord Chief Justice Best, who expressed the opinion in *De Wurtz vs. Hendrick*, "that it is contrary to the law of nations for persons residing in this country to enter into engagements to raise money, by way of loan, for the purpose of supporting subjects of a foreign State in arms against a Government in alliance with our own." The statement then follows that a like case had recently been decided "in which the Lord Chancellor entertained the same opinion as myself, and in which he is stated to have said that English Courts of Justice will not take notice of or afford any assistance to persons who set about raising loans for subjects of the King of Spain, to enable them to prosecute a war against that Sovereign; or, at all events, that such loans could not be raised without the license of the Crown." The rule thus laid down by the English Courts, declaring it to be illegal for individuals to raise money by way of loan to assist subjects of a foreign State, so as to enable them to prosecute a war against their own Government, while the latter is in amity with that of the lenders, has been expressly affirmed by the Supreme Court of the United States. And yet the fact that money is an article of commerce, whose transmission can be so manipulated by private individuals as to baffle all attempts upon the part of Governments to control it, has made necessary the rule exempting them from the neutral duty of interference when the transaction is merely a commercial one, providing for the *bona fide* payment of reasonable interest.

Vattel, clearly perceiving the real difficulty, even in his day, drew the distinction between a case in which money is loaned in the ordinary course of business "for the sake of gaining an interest upon it," and a case in which a loan is made with a definitely hostile purpose. And so when Canning, in 1823, called upon the British law officers (including Copley, afterwards Lord Lyndhurst) for advice as to the legality of loans and subscriptions "for the use of one or two belligerent States by individual subjects of a nation professing and maintaining a strict neutrality between them," the reply was made that, while voluntary subscriptions of the kind in question were inconsistent with neutrality, "loans, if entered

into merely with commercial views, we think, according to the opinions of writers on the law of nations, and the practice that has prevailed, that they would not be an infringement of neutrality." In accordance with that unquestionably sound view, Mr. Webster, in the United States, declared in 1842 that "as to advances and loans made by individuals to the Government of Texas or its citizens, the Mexican Government hardly needs to be informed that there is nothing unlawful in this, so long as Texas is at peace with the United States, and that these are things which no Government undertakes to restrain. Upon that basis the bourses of the world are open to the traffic in money as merchandise." During the Franco-Prussian War the French Morgan loan and a part of the German Confederation Loan were issued in England, and during the American Civil War the loan of the Confederate States was taken without interference in London, Frankfort, Paris, and Amsterdam. Such bonds, secured by cotton, ranked higher for a time than those of the United States.

Such articles as money, metals, cotton, and clothing, not in themselves contraband, may become so under circumstances substantially the same as those that impart to provisions a noxious character. While money may be lawfully sent to a belligerent country for the purchase of goods or for the payment of debts, its consignment for the purpose of assisting belligerent operations authorizes its treatment as contraband. Upon that ground the Supreme Court of the United States held that the general commanding at New Orleans during the Civil War was justified in ordering the removal from a Russian vessel, outward bound, of silver plate and bullion believed to be intended for the promotion abroad of the interests of the Southern Confederacy. During that contest it was also held that cotton was contraband because it took the place of money. As Mr. Bayard expressed it: "Cotton was useful as collateral security for loans negotiated abroad by the Confederate States Government, or, as in the present case, was sold by it for cash to meet current expenses, or to purchase arms and munitions of war."

## STERLING EXCHANGE.

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By request, Professor Flux of McGill University, has written the following review of Mr. Patterson's article:—

For most of the ordinary purposes of exchange business, a reliance on tables, rather than on processes of direct calculation of the results required, is justifiable. The vast majority are content to deal with rates of sterling exchange in this way, and to rely on tables of equivalence of Canadian and currency quotations. Even these may find the simple rules contained in Mr. Patterson's article of interest, and familiarity with them might render them not less difficult to use than the tables actually employed. Some there are who wish to know as much as possible about the basis on which these tables are constructed, and for them the article in question will possess something beyond a curious interest. The working rules supplied are almost startling in their simplicity. How is it that such simple processes can afford results of substantially precise accuracy?

As Mr. Patterson points out, the dollar, in reference to which Canadian quotations are expressed, is valued at 4s. 6d. sterling. This is nine-fortieths of a pound, and the reduction of currency to Canadian quotations is obtained by multiplying the former by 9 and then dividing by 40. The Canadian quotation being given as a percentage premium on the conventional par, the result of this arithmetical process has to be multiplied by 100. These two operations may be combined into one, giving the rule set out in the article, namely, to move the decimal point of the currency quotation one place to the right and then multiply by 9 and divide by 4. The inverse process transforms Canadian into currency quotations.

In practice, the rates dealt with rarely fell below 4.80, or 8 per cent. which is its equivalent. We may, therefore, confine attention to the variable part of the quotation, the figures following the first two of the currency quotation, that is, the excess of the rate over 8 per cent. The process of multiplying by 9 and then dividing by 4 is equivalent to multiplying by 144

and then dividing by 64. Hence, multiplying by 144 gives the number of sixty-fourths over 8 per cent. This multiplication may, of course, be done in two stages, by multiplying by 12 and then again by 12.

But the figure 144 is cumbrous to handle, and it is useful to notice that it is equal to 1008 divided by 7. This does not differ much from 1000 divided by 7. The work may, therefore, be reduced to multiplication by 1000,—i.e. removing the decimal point three places to the right (which brings it to the end of the row of figures constituting the quotation, as ordinarily given),—and then dividing by 7. This simple rule, of division by 7, is one of the most striking results offered by Mr. Patterson. The preceding shows how close to precise accuracy the result must be. We have written 1000 for 1008. To obtain absolute exactitude in our result, therefore, we must increase it by eight-tenths of one per cent. of itself. The correction will always be trifling, and need not, generally, be calculated with painstaking precision. The article contains statements of how the allowance may be made in practice.

Others of the simple arithmetical rules given by Mr. Patterson rest on principles as simple, and as easily demonstrated, as the above. We have thought it worth while to call attention here to the way in which the rules he gives may be arrived at in a simple way from recognised data. The apparent arbitrariness of rules, supplied in a form available for use, corresponds to nothing arbitrary in reality. After a study of this article, there should remain nothing mysterious about the Canadian quotations of sterling exchange.

## QUESTIONS ON POINTS OF PRACTICAL INTEREST.

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**R**EPLIES may be obtained, through this column only, to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

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### *Restrictive Endorsement.*

**QUESTION 579.**—Can a holder for value of a cheque, note, draft, etc., restrict his endorsement when item has already been endorsed in blank by payee, by endorsing it “payable to order of” John Smith, a subsequent holder, and must John Smith endorse it to make it negotiable.

**ANSWER.**—Yes; see Section 34 (4) of the Bills of Exchange Act.

### *Bills for Collection—Duty of Bank in Respect to Warehousing and Insuring Goods.*

**QUESTION 580.**—When a bank holds a time draft for collection duly accepted, with documents attached to be given up on payment, and the goods arrive before the maturity of the bill, is it the bank's duty to have the goods warehoused and insured if the acceptor is not prepared to pay the draft before maturity?

2. In the event of the goods being destroyed and the acceptor being worthless, would the bank be responsible to its principal for negligence in not having the goods warehoused and insured?

**ANSWER.**—(1) No.  
(2) No.

### *Cheques—Practice when same are Stamped “Paid” in Error.*

**QUESTION 581.**—(1) A draws cheque on his banker and forward to B in the ordinary way. When the cheque arrives

a: his bank for payment it is perforated "23709 PAID". The cheque is presented through the Clearing House. Should A's banker pay the cheque, or should the presenting bank be made to guarantee? I enclose you a cheque to show the condition in which it was presented.

(2) A gives cheque to B, or bearer. B endorses it over to C or order. Is it necessary for C to endorse cheque before payment.

ANSWER.—(1) The cheque need not be paid in the absence of satisfactory proof that it was perforated "Paid" in error, or a sufficient guarantee being given.

(2) Not legally necessary, but perhaps advisable.

*When is a Bill Discounted?*

QUESTION 582.—(1) When is a bill discounted?

(2) After the Manager had agreed to discount a bill, an irregularity in the bill is noticed. Could the bank refuse customer's cheque for amount of proceeds without incurring liability?

ANSWER.—A bank would not incur any liability through dishonouring a cheque to meet which their customer had left an irregular bill—but they should at once let their customer know of the irregularity so that he could have it rectified.

*Account opened by Administer of Estate.*

QUESTION 583.—A dies leaving a balance to his credit. B is appointed *special administrator of estate of A* by an order of Court, under which authority C bank pays the balance of A's account to B, who wishes to open an account in his own name, "B special administrator of estate of A deceased."

(1) Would the bank incur any liability in the proper distribution of the funds by paying cheques on an account opened under the above title, in the event of B misappropriating the funds or in any way wrongfully distributing them?

(2) Should not C decline to open an account under the above heading but agree to open it "B Special Administrator" simply. The inference being that after the funds are withdrawn from A's account, the opening of the account by B as "Special Administrator", comes as fresh business, and apart



from the fact that B has been satisfactorily identified to the bank, is it not incumbent upon the bank to know how B came with the money, which of course, may or may not be the exact amount of A's balance ?

ANSWER.—(1) No.  
(2) We consider it immaterial.

*.. Deposit Receipt Payable to Two Parties—Sufficiency of Endorsement.*

QUESTION 584.—Referring to Question 569, Vol. 11, and to Section 84 (2) of the Bank Act.

In the case of a receipt being drawn to John Jones and Adam Smith, without the addition of the words "or either of them", would the endorsement of one be a sufficient release under the above Section of the Act.

ANSWER.—Endorsement of one we consider sufficient.

*Presentation before Protest—Duty of Notary.*

QUESTION 585.—The notary of bank A is in the habit of protesting notes and cheques payable at bank B without anyone from his office presenting for payment. The notary claims if he can show presentation was made by an officer of bank A that is sufficient.

Can Bank B insist on presentation by the Notary or by someone known to be acting for him. Notes payable at Bank B have been protested and Bank B knows nothing about their going to protest ?

ANSWER.—The notary should make presentation, and all parties concerned are entitled to expect that such is done.

*Wheat in Farmer's Possession as Security—His Pledge not Valid.*

QUESTION 586.—Would a farmer's "own pledge", on wheat stored in his own granary be a legal security to a bank under Section 74 of the Bank Act? If not, is there any way that a bank can acquire the rights and powers in respect to

the wheat as security for an advance that they would acquire by virtue of a warehouse receipt?

ANSWER.—A farmer's pledge would not be a valid security under Section 74 of the Bank Act.

(To Questioner—Balance of this question should be referred to a Manitoba solicitor.)

*Bill Presentation—When Acceptance Conditionally Refused—Is Protest Necessary.*

QUESTION 587.—A bill was received by a bank for collection. On its presentation the drawees state the relative goods have not arrived and that they will not accept the draft until they have the goods. In the absence of any instructions, must the bank protest the bill for non-acceptance, or will it be relieved if it promptly notify the bank from which it received the bill?

In such a case is protestation a rigid rule or discretionary?

ANSWER.—In the Province of Quebec protest is necessary. (In the other provinces a foreign bill must be protested. The holder may notify such drawer and endorers of an inland bill, and such notice will be sufficient. See Bills of Exchange Act, section 51.)

*Counterfeit Notes—Duty of Tellers in Connection Therewith.*

QUESTION 588.—A bank teller in Canada receives from a customer a United States note which he knows to be a counterfeit. Has he the right to mark the word "counterfeit" on the face of the note, or is he obliged to return it to the customer? In the latter case there is the danger that the public or possibly some other bank will make a loss on the note.

ANSWER.—Section 62 of the Bank Act only refers to counterfeit and fraudulent notes issued in the form of a Dominion or chartered bank note and intended to circulate as money. It is not clear that "Bank Note" in this connection is wide enough to cover a United States note.

It may, however, be noted that by Art. 420 of the Criminal Code "Bank Note" includes United States notes, and

by Art. 424 it is an indictable offence to have such a note in one's possession, knowing it to be forged, and a teller therefore in stamping such a note as counterfeit would incur no greater risk than he does under Art. 62 with regard to a Dominion note or a note of a Canadian bank.

There is no obligation to deface a counterfeit United States note, nor can there be any liability if it is a counterfeit.

*Savings Bank Account—Can a Matured Bill be Charged  
Thereeto.*

QUESTION 589.—A. has a saving account, and gives a note payable at the bank where he has his account. Has the bank any right to refuse paying the note, unless they get his order to charge it to his savings account. Could not the bank be held for costs, if the note was protested, providing he has funds?

ANSWER.—Such a note is not a proper charge against a savings bank account.

*Endorsement of Incomplete Note—Position of Premature  
Endorser.*

QUESTION 590.—A note is made by A payable to B, and endorsed by C before B endorses it, and is discounted after the endorsements are complete at the bank. The bank knows the facts as to the order of endorsement; can it recover from either or both endorser?

ANSWER.—This is the case of the Canadian Bank of Commerce *versus* Perram; 31 O.R., 116, but with the note in the hands of a subsequent holder.

When C endorses the note he may do so either with the object of guaranteeing its payment or perhaps without effect at all, because the instrument is at the time incomplete.

In England and Scotland (*Vide* Steele *vs.* McKinley, 2 A.C., 1880, p. 754) the law required a writing in a particular form in order to hold a guarantor who was not held as such merely by the endorser. He was not a party to the note nor was he liable as a guarantor; (*Vide* also Canadian Bank

of Commerce & Perram, 31 O.R., p. 116, and Jenkins & Coomber, 2 Q.B., 1898, p. 176).

In Quebec the guaranteeing of a note by endorsing it was recognized.

But for our Bills of Exchange Act this question might have to be solved in one way for Quebec, and in another way for the English-speaking provinces. But it apparently puts C in the same position in all the provinces, by putting the quasi endorser or party "par aval" in the position of an ordinary endorser.

The bank's title to the note is not in question, but only C's liability as an endorser or quasi endorser. His defence is probably a personal one within Section 38, sub-sec. (b) We think the bank could recover from either B or C.

## EARLY NOTIONS CONCERNING BANK NOTES.

We republish, by request, the following funny stories illustrating some early ideas concerning the notes issued by banks:—

The story has been oft repeated of the Irish mob, who being incensed at the officers of a bank for closing its doors, sought revenge by gathering together all the notes of the bank they could lay hands upon and with them creating a bonfire; but the following episode having its origin nearer home, found in an old number of Harper's, is equally worthy of preservation.

About the beginning of the present century, the old Bank of Albany, since defunct, then presided over by thirteen distinguished representatives of fatherland, issued its first circulating notes. Immediately after their receipt from the printer an application for a loan of a few thousand dollars was made to the bank, by a drover well known in Albany for his ability and financial soundness.

The loan was "passed" by the Board, and the cashier ordered to pay the money, who, like a faithful officer, bethought himself as to what kind of money he would pay—whether their own currency or gold. The currency was new; so he re-convened the directors at once, and laid the subject before them. Chairs were drawn to the great fireplace, thirteen clay pipes were lighted, and discussion ensued upon the proposition to pay out the new currency. No satisfactory conclusion was likely to be arrived at, until the following speech was made by one of the number:

"Gentlemen of the Board: These bills of ours, received to-day, have cost this bank a large sum of money. The engraver, the printer the papermaker, and incidentals, all have to be paid. The thought of these expenses, so justly incurred, does not stagger me in the least; for the bills are very fine and an ornament to the bank. But, gentlemen, when it is proposed to send these new bills into the far West, there to be traded for cattle, torn, soiled, and perhaps utterly destroyed, I, for one, most solemnly protest. I venture this moment, gentlemen, to assert the opinion that should you be so unwise as to allow these new bills to be sent North and West, beyond Lansingburg, Schenectady, and away to the other side of Utica (as I understand this man proposes to take some of them), you will never see them again so long as the Bank of Albany has an existence or a name."

The motion was lost, and the gold was duly paid.

## CORRESPONDENCE.

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*To the Editor of the Canadian Bankers' Journal.*

*Re Proposed Bankers' Institute.*

SIR,

For the information of your readers who are interested in the formation of the proposed Bankers' Institute, I regret to say that, owing to the want of unanimous support of the banks, the committee appointed to assist me in forming an Institute, have been obliged to abandon the idea, and the contributions so generously given by some of the banks have been returned to them with a letter of thanks for their willingness to assist in the enterprise.

The aims and objects of the proposed Institute have already been set forth. The chief purpose, apart from making the proposed association a centre for bank officers where they could meet after business hours, would be to enjoy the advantages of personal intercourse with congenial friends and incidentally obtain that professional knowledge so essential to those engaged in a business closely identified with character and conduct in all its branches. Bearing in mind that many of the young men in the banks of Montreal are strangers in the city who have not the opportunity to become members of clubs, this Institute would afford an agreeable resort with superior attractions to what they could find elsewhere. The proposed recreation rooms would, it is confidently expected, meet this requirement, admirably,

Paramount, however, would be the instruction and training of the younger members of the banking profession by gentlemen qualified by ability and experience to give such instruction, and to point out how the desired training could be best acquired. It is needless to say that the advantages which would accrue to the members from such addresses cannot be too greatly emphasised.

One of the general managers in giving his support to the scheme, wrote as follows:—

“The importance of the proposed Institute fully warrants the generous expenditure, and I only hope that the members of our staff will take advantage of the opportunities the Institute will afford. It does seem to me that our men generally lack interest in the theoretical part of our work. No fault can be found with the practical or routine work, but every young man should realize that the banking profession is something more than being a mechanical machine for the production of certain results and figures, an intelligent interest in the theoretical as well as the practical part of banking would make their calling a delight, where, I am afraid, it is now often more or less a drudgery.”

It was also intended to thoroughly furnish the rooms and form a solid nucleus for a library from which city and also country members could borrow professional works not easily obtainable in the ordinary way.

In the midland counties of England—to say nothing of the larger centres—generous donations were made for a period of five years, not only by the local banks there, but also by head offices of banks in London, and these Institutes are now, really, self-supporting.

It is a matter of regret for the reasons above stated, that we are unable to successfully establish the proposed Institute, owing to the unaccountable apathy and indifference of certain banks whose interests are as much concerned in the successful establishment and existence of an Institute of this kind, as the banks which so generously and promptly responded to the request for financial assistance. I cannot conclude, however, without expressing the hope that, at some future time, the banks will *unanimously* extend their support, so that the project may be developed on the lines already indicated. Experience of its benefits would, I am sure, prove its necessity.

Your obedient servant,

J. GILLESPIE MUIR,

*Fellow of the Institute of Bankers, London.*

## SOMETHING ABOUT BERMUDA.

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"Surely no one who has the opportunity should omit to travel. The world belongs to him who has seen it".

LUBBOCK.

The increasing interest taken by travellers in Bermuda may excuse the writer for inflicting upon your readers the following sketch of the delightful semi-tropical islands to which so many Canadian bankers now resort in search of health or for a mid-winter vacation:—

It was in 1882 that business carried me for the first time to Bermuda. Of the voyage to the islands, too much neglected by Canadians in search of recreation ground, it is not my intention to write. It has been my lot during a hitherto busy life to make many journeys by land and sea, and some of them have not been uneventful; but an army of writers, clever and otherwise, have described in books of travel and adventure all that is apt to befall ordinary passengers.

The object of this sketch is to draw attention to what may be seen and done in Bermuda. Have you, my chance acquaintances, ever read Mark Twain's "Idle Excursion?" When reading in the Bermudas the account of the American humorist's visit to the islands, I realized how much of the enjoyment of perusal of the same writer's "Innocents Abroad" must be lost to those who have not been able to travel through Europe after the fashion of the passengers in the steamer *Quaker City*. How much must the quiet satire of Mark's description of the Turkish lunch be heightened for those who have partaken of such a meal, and how much more crooked must that street in Damascus seem to those who have wandered through its mazy labyrinths, and later read the allusion to a possible sense of humour in that apostle who wrote of it as the street *called* straight.

I make this reference to the "Innocents Abroad," because I feel that justice has not been done to that book by those who regard it as a volume of fun alone and not as a guide book to things worth seeing and also remembering when doing Europe.



So, in the same way, in the pages of "An Idle Excursion," underlying the humour therein, is a faithful record of what every visitor to the Bermudas should see and observe closely, each in his or her own fashion, during a visit to those islands of sunshine and flowers.

I find on the back of a photograph of the islands, purchased in 1882, these my first recorded impressions of the Bermudas:

"This view merely gives you an idea of a group of islands as you see them from the top of a high tower, and does not convey to the mind the slightest impression of the almost marvellous colors of sea and sky, and the really eye-dazzling effects of the white roads, whiter houses, brilliant plumaged birds of scarlet and blue, and sweet-scented roses of every shade of pink and red. Bermuda is something more than the market garden of New York and Boston. 'Tis the home of a people far removed from the cares of daily business; troubled with letters only once in a fortnight; knowing nothing of telegrams from neighboring cities and cablegrams from abroad; and in all the indolence begotten of seclusion and sunshine, breathing an atmosphere so full of ozone (and ominous, when in season), that the natives live to a disgracefully old age, and a death seems such a rarity that the relatives of a Bermudian who does contrive to run the risk of reaching a better land usually contrive to pop the foolhardy traveller out of sight 'neath the cedar trees ere his friends are able to assemble for the funeral. To expire at 4 a.m. means a planting of the expired one at noon sharp. But the place is so aggravatingly pretty that I can almost imagine a hardy Northerner might in time be found longing for the pine woods, the rivers, and the grey tints of Canadian scenery."

And now let me tell of the Bermudas as I first saw them after a voyage of three days from Halifax, N.S. After crossing the Gulf Stream we had given tweed clothing and overcoats into the custody of bedroom stewards, to be stowed away until our return, and we appeared on deck in all the summer glory of light clothing and straw hats. It was early morning, and the sea and sky were of uniform blueness, so peculiarly beautiful that I have never seen the same faithfully reproduced by any artist save my friend Riley, who, living in Bermuda for some years, had time to wander along the southern shore, and in perfect quietude study the Bermudian waters as contrasted with the grey rocks, the dull green of sage bush, stunted cedar, and wild grape trees which lend to this part of the islands a romantic attractiveness quite indescribable.

As I reached the deck, I saw that the steamer's bridge was occupied by a burly black pilot who had boarded the vessel full twenty miles from the treacherous reefs, the outer edges of which we were said to be fast nearing. Away in the hazy distance was Bermuda. Seen from the deck of a vessel, on a

calm, sunny morning, the clump of islands looked like a big white table-cloth dropped down on the blue ocean.

I have listened to many discussions about the Bermudas. I have heard them described as a pinnacle of the lost Atlantis; as a table land of coral, supported on pillars likely at any moment to be undermined by the action of the waves; as a ledge of rocks, into the crannies and crevices of which enough wind-blown soil has settled to give earth room to the crops of onions and tomatoes; as a three-years' prison house for marching regiments of the British army; as the winter station of the North American Squadron of the British fleet; as an El Dorado for photographers.

Bermuda may be any or all of these. But these lovely islands are also to tourists and occasional visitors, during the months of February, March, April and May, a veritable fairy-land—a region of perpetual delight to the eye, and pleasure to the other senses.

Stay beside me on the deck of the *Beta* and look at the ever-changing scene as we thread our way through the winding buoy-marked channel leading into St. Georges. Nearing the coast, we can gaze down into the blue water to such a depth that it would hardly surprise one to see the bottom of the ocean, with its wealth of coral caves and marine plants, and the mermaids of song and story. And what is this? Can anything be more soothing to the senses of a Northern visitor to these Southern waters, accustomed, as he is, to the grey and neutral tints of everything—breezy-looking clouds, and dark, foam-tipped waves—than to behold (as he rounds the first promontory of rock, with its single cedar tree silhouetted in sharp outline against the cloudless background), a surface of unbroken blue water, hardly rippled by the softest of summer air, and then to observe rising out of this wonderful water what looks, when seen from the deck of a ship just entering port, like a town built out of white marble.

And now we are alongside the quay, and a landing stage is constructed by the running out of two immense beams by an army of colored men, who, straddling the same, are soon engaged in planking a gangway for passengers and cargo by lashing boards from beam to beam.

If the editor of this journal would permit me to so encroach upon his space, I would like to describe some of the street scenes of St. Georges—the donkey cart driven by a loquacious colored lady of uncertain age but no uncertain bulk,

whose work in life is the carting of luggage to the hotel; the sun-browned subaltern, who has just strolled down to meet "Jones of Ours" and condole with that poor youth upon having to put in his time in such a "blasted hole" as Bermuda; the colored urchins lolling about in the sun, a group of picturesque idleness carved in ebony, and clothed in a little cotton and a lot of straw; the barouche filled with happy looking American tourists, who have just driven across the causeway from Hamilton to "do" St. Georges after the systematic way of their sight-seeing countrymen; some foreign sailors from that Italian barque seen in the stream as we entered, one of the numerous "lame ducks" driven into Bermuda by stress of weather.

But I must hasten to Hamilton. For the information of any one contemplating a trip to Bermuda let me here say that the tourist whose landing place chances to be St. Georges cannot do better than to see St. Georges before starting for the only other town, Hamilton, in reaching which, by carriage, he will pass across the celebrated Causeway.

During the visitor's sojourn in St. Georges, and the ride to Hamilton, he will obtain ample evidence of the historical interest attaching to the Bermudas as one of the oldest of the Crown Colonies.

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I purposed including in this article a description of all the places of interest in and about Bermuda. But here is the editor reminding me that his columns are not a hundred yards long.

I wanted to quote Twain's description of Hamilton by night; his reference to the value of the onions in the eyes of good Bermudians; his whimsical regret over his inability to pick overshoes off the india rubber tree; and the distress of his friend over the whiteness of Bermudian roads.

And then I purposed adding to the notes of "An Idle Excursion" the discoveries of one who knows Bermuda better than even the observant Mark Twain.

Yes, but for this obdurate editor, I could grow warm again in praise of the bits of Fairyland discoverable during rambles through Pembroke and Warwick, the glories of the palm trees, and the "burning bush"—a tree, when in full bloom, resembling a large umbrella of the most flaming red

tint; the view from Gibb's Hill Lighthouse, from whence one sees the vast ocean in all directions, and far, far below, the small islands comprising the Bermudas; the extraordinary caves; the once celebrated Dry Dock at Ireland Island; and the rainbow tinted angel fish, to be seen in the pond at the American Consul's.

I also wanted to tell of the speedy Bermudian yachts, and of the very interesting races I have witnessed between the *Julia*, *Emerald*, *Nameless*, *Dauntless*, *Undine*, and other ancient flyers.

I could have made a pen-picture of the finish of that race for a Cup given by the Princess Louise during her residence at Bermuda, when, after sailing the usual triangular course of 12 miles, three of the 'Mudian sloops rounded the stake-boat at the finish so close together that a special committee had to be appointed to decide "what boat won." And how yachtsmen the world over will whistle to hear that the winning yacht of the race referred to was only seventeen feet along the keel, and yet carried a forty-two foot mast on the day of the race, and had her mainsail laced thereto.

However, let me before I close my eyes upon the beauty of Bermuda, recall a bit of the south shore. Whenever my mind travels back to Bermuda all other recollections of the islands and people fade away when a bit of the southern shore, dear to artists and lovers of the beautiful, passes before my mental vision. I am familiar with the coast scenery of several countries, and yet, when I recall what I have seen—the white cliffs of Dover, near my birth place, on the coast of Kent; the stretches of yellow sand at some seaside resorts across the English Channel; the quaint shore line of Holland; the rocky outline of Newfoundland; the sand hills at the mouth of Chesapeake Bay, Virginia; the really pretty bays and inlets seen when driving from Halifax to Mahone Bay in July—all these are forgotten when that bit of Bermuda, the "South Shore," is referred to.

How few are the visitors to Bermuda who, during their stay at the "Hamilton" or the "Princess," discover the delightful resorts to be found on the south shore.

On my first visit to the islands, I walked from Hamilton to the spot I want to describe. Leaving a lane shaded with overhanging trees, and fringed on either side with oleander bushes, save where low stone walls overgrown with feathered

ferns and cushioned moss marked the boundary of some estate, I struck a footpath through a grove of cedar trees, and, skirting one of the onion patches found all over the islands, saw before me a tangled growth of wild grape trees, and then a scene which no dream of the tropics described in song or book of travel can ever efface.

Stretched out before us lay the sea, blue, nay, bluer than the sky above, its sheeny surface free, far as the eye could reach, from sign of sail. Down at the base of the rocks, twenty feet below, was a long stretch of sand, upon the soft surface of which we almost expected to see traces of the marvellous blueness of the surf lazily breaking at long, long intervals. The air was heavy with tropical warmth and quivering with the murmur of the sea. As I recall the south shore of Bermuda, I sigh in sheer happiness. What nests we found there! Caves formed by the overhanging growth of the wild grape trees shutting out some of the glaring sunlight and bathing the delicious scene in a mellow shade as we lay like renegades from civilized life, and gazed on the everlasting sparkle of the ocean, and pulled at our pipes, and regretted that we could not dwell for ever in such a home as this bower of wild grapes on the south shore of Bermuda.

JOHN KNIGHT.

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## CANADIAN BANKERS' ASSOCIATION

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*JULY—1904*

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### EDITORIAL.

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The Montreal Clearing House figures for the half year ending June 30th, when compared with corresponding period of 1903, show a reduction of eighty-six millions three hundred and twenty-three dollars. With the exception of Winnipeg, the returns from the other Clearing House cities of the Dominion exhibit a marked decline in the volume of business, and, although the signs of the coming depression in trade may not be so manifest as to create alarm, they warrant mercantile and manufacturing interests in abstaining from embarking in any extensive undertaking until the outlook is more clearly defined.

**The  
Outlook**

In the United States where railroad earnings are accepted as a fair barometer of trade conditions, decrease in the profits of the leading railways has been for some months continuous and heavy, and the financial journals of New York and Chicago point to the large increase in company deposits, the accumulation of idle money, and the lack of interest in the stock market as the signs of a dullness not likely to disperse until at least after the presidential election.

The condition of many large industrial concerns in Canada, and knowledge of the financial and business affairs of our neighbours surely warrant careful preparation on the part of Canadian banks for any contingencies.

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The daily recorded transactions at the Stock Exchanges of the leading cities in Canada and the United States show **Stocks** inactivity of a quality unlike anything witnessed and for many years. Declines in prices for all sorts of **Securities** securities have been so extensive that there would seem to be a fear arising of a coming decline in the industrial activity and general trade of the continent.

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The leading financial journals of New York and Chicago state that despite quieter business and "the effects of preferential duties with Great Britain," the trade of the United States with Canada continues to increase. The exports to **Trade** this country for ten months of the American fiscal **with the** year aggregated \$104,164,521 against \$98,466,473 **United States** in the same period of last year. The imports, however, for ten months declined to the amount of \$3,723,000.

The development of domestic Canadian industries is admitted to have checked the growth of American exports of cotton goods, leather, provisions and butter.

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"I regard the gold standard as firmly and irrevocably established, and shall act accordingly if the action of the Convention to-day shall be ratified by the people.

As the platform is silent on the subject, my view should be made known to the Convention, and if it is proved to be unsatisfactory to the majority, I request you to decline the nomination for me at once, so that another may be nominated before adjournment."

ALTON B. PARKER.

The message sent by Judge Alton B. Parker to the Democratic party in the United States, although it has caused but little comment in Canada, possesses much interest for our people. It establishes the gold standard beyond dispute, and the business world may now safely regard free silver as a dead issue.

Judge Parker's message is intensely interesting for another reason. It enables Canadians to watch the coming presidential conflict without uneasiness, knowing that whatever may be the result, the stability of the financial system of our neighbours is not in jeopardy, and that the presidential chair, whoever may be chosen to fill the same for the next four years, will be occupied by, to quote the *New York Evening Post*, "a real man." Referring to Judge Parker's action in boldly notifying his friends that he would not accept the greatest honour his countrymen could bestow unless it were extended to him on terms squaring with his convictions regarding the gold standard, the same paper says: "*Bryanism was pierced to the heart when the Judge wrote his astounding, his exhilarating, his conquering telegram.*" Regardless of the personal and political aspect of Judge Parker's act, his message comes as a guarantee to investors in American securities that never again will their interests be imperilled by the silver-tongued gentleman who in 1896 induced so many thousands of his countrymen to believe that free silver would make them rich, and that the poor were being crucified on a cross of gold.

The *London Times*, in an editorial, praises the courage and candour of Judge Parker, and says:—

The colorless of his candidature had made it seem possible at one time that he would finally give place to some other man possessing well-known and strongly marked characteristics like those of Cleveland. Now his position has entirely changed. By a single act of that courage which so often is the truest political wisdom Justice Parker has placed himself amongst the most striking individualities in the public life of the Union.



Amid the heat and turmoil of a political convention, in circumstances which all pointed to compromise or acquiescence, at a moment when his candor imperilled his whole future career, Justice Parker has not been afraid to speak out. He has made his own terms and dominated the party machine. He goes into the contest incomparably strengthened, and the effect of his action will be felt all through the Democratic ranks.

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Whatever uneasiness may be felt in business circles by reason of the disturbed state of the labour market and the unsatisfactory condition of some new enterprises in the extreme east of the Dominion, a feeling of confidence must prevail when scanning the reports from the wheat lands of the Great West. The glorious prospect of another splendid harvest ought to dispel the fear of the future, engendered by rumours of financial disturbances elsewhere. The prospect of a good crop of grain forms a solid basis for great expectations. The movement of the wheat means activity on the railroads; and when those engaged in agricultural pursuits are reaping the rewards of their labour, the mercantile community share therein, owing to the natural stimulus given to the trade of the Dominion.

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Edouard Surveyer's article published in this issue of the JOURNAL, is interesting in the extreme, answering, as it does, the question as to the responsibility of banks and trust companies for valuables entrusted to them for safe keeping.

**Deposit  
Boxes  
and their  
Contents**

Those who receive remuneration for becoming depositaries of securities, etc., probably know the extent of their liability in the event of their inability to restore to the owner his property. But a review of the obligations of banks, trust companies and safe-deposit companies, for the purpose of ascertaining the nature of the contract between the bailor and the bailee is most timely, when one reflects upon the immense value of the property consigned to the custody and protection of others than the owners.

With the establishment of trust and deposit companies, it is no longer necessary for banks to accept the custody of

valuables for their customers, and there can be no excuse for a bank gratuitously undertaking to safeguard anything other than its own treasures.

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Prudent economy, frugality, and thrift are the distinguishing characteristics of the Canadian *habitant*, and these good qualities are, evidently, also possessed in an equally strong degree by the people of France. A recent instance of their large accumulation of capital, and of their consequent investing power may be found in the prompt absorption of the Russian war loan which amounted to \$150,000,000. The bulk of this amount is said to have been taken by small investors who subscribed for sums varying from the equivalent of \$100 up to \$300.

Referring to the readiness with which French money was drawn from its hiding places to be loaned to Russia, Bradstreet's Journal says:

"Not a little comment has been caused by the fact that the recent Russian loan was successfully placed in France, in the face of the news of serious reverses by the Czar's forces in the East. It is, however, pointed out that the readiness of French investors to subscribe for the new Russian bonds was not altogether a matter of political sympathy, as many have supposed, but was the outcome of an effective use of the regular machinery which governs the investment market throughout France. The large banks and financial houses in that country exercise an enormous influence over the ordinary investor. Not only is it customary for such establishments to virtually make themselves responsible for the safety of the investments they offer, but they take a much more active part in advising their clients and regulating their financial affairs than is the case here or in Great Britain. It is the custom in that country for the large banks not only to give advice to their customers about securities which they consider desirable and safe purchases, but it is also customary for them to advise sales of any security if their managers arrive at the conclusion that it would be the best course to pursue. The great French banks are well managed, and the advice they give is generally for the advantage of the investors who intrust their interests to them. It will thus be seen that the concerns which took up the Russian loan and offered it to the French public were in a position to influence an immense mass of capital, and the presumption is, furthermore, that they received assurances that whatever might be the outcome of the war, Russia's payments on its external debt would not be affected. It is furthermore estimated that at the present time the accumulation of unemployed money in France is larger, if anything, than at any previous period in the country's history, which goes far toward explaining the ease with which Russia's borrowing was effected there, despite the general impression which prevailed in this country, and at London as well, that French investors were surfeited with the securities of the republic's imperial ally."

In connection with the publication of Professor Shortt's "History of the Canadian Currency" now appearing in the JOURNAL, the gifted writer proposes to extend same to the **History of** period when the General Bank Act of 1881 became the Canadian law. Professor Shortt will then bring his interest-Currency ing compilation to a close with merely a summary reference to the few changes since that time. Although the recent economic expansion of Canada has much modified the relations of our banks to the economic needs and financial stability of our country, yet the most interesting features are really present day problems in process of being worked out, and therefore do not properly belong to history.

We are glad to learn from Professor Shortt that he intends to publish his "History of the Canadian Currency" in book form. It should find a place in the library of every bank and banker.

The unsatisfactory Alaska boundary award awoke Canadian recollection of the still more unsatisfactory Ashburton treaty in 1842, and Canada is inclined to determine the whereabouts of her northern line **Labrador** for herself. In connection with that process she proposes **and Hudson** to establish her exclusive rights in and power over Hudson **Bay Again** Bay. The question to which we have referred to as "squatter sovereignty" arises from the fact that hitherto Canadians have made no effort to profit by the opportunities afforded by the region, while American whalers have for many years operated profitably in those waters, virtually unmolested, and have established themselves in winter homes on the land. The Laurier bill proposes a license fee to be enforced against all aliens whaling in those waters or using the Canadian shore for trying out blubber obtained at sea beyond the three mile limit. The mission of the Neptune is to ascertain the conditions and the extent of American activities in the vicinity. The Canadian attitude opens a possibility that another commission will be necessary at no distant date. If Canada shows a strong inclination to stand by her claims, a highly interesting situation is likely to result.—*New York Sun*.

In October of last year we directed attention to the despatching by the Department of Marine and Fisheries of a Dominion government expedition to the Hudson Bay. With Mr. A. P. Lowe, of the Geological Survey Department, on the steamer Neptune, when she left Halifax, Nova Scotia, sailed a small body of the North West Mounted Police. The business of Capt. Moodie and his men of the N. W. M. P. was, we ventured to assert, to prevent any future dispute as to our proprietary rights in Hudson Bay, to remove all doubt as to what flag should float in the Labrador region, and to make clear to

squatters of every nationality found in the Hudson Bay Territory that the land they live in is, however, remote from the seat of government, part and parcel of the Dominion of Canada. That Canada should evince a disposition to assert proprietary rights in Hudson Bay, to manifest an intention to maintain said rights, seems to amuse the *New York Sun*. Possibly the paper in question is hardly deserving of serious notice. But the comments it makes upon the situation revive the rumour that the United States contemplate claiming fishing rights in Hudson Bay. It is not outside of the realm of possibilities, absurd as such a claim may seem, that Canada may yet be confronted with a bill of damages for interfering with the American whale poachers, followed by a request for a commission for the purpose of ascertaining if Canada has "squatter sovereignty" over Hudson Bay, and that part of the Arctic Ocean which the *New York Sun* says "lies between the 70th parallel and the North Pole."

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The growth of the desire for municipal ownership of the water supply system, gas works, electric light plants, and other public utilities of great cities makes the question one of absorbing interest. Where the exclusive use of public property is wanted by individuals or companies for the purpose of conducting enterprises connected with lighting, heating, and transportation, it is certainly worth while that people should study the conditions brought about by municipal ownership. We gladly reproduce, by consent of the writer, an article from the pen of Mr. Martin J. Berg, an official of the First National Bank of Chicago, illustrating some of the results of municipal ownership in Glasgow, Liverpool, Manchester, Edinburgh, Dublin and elsewhere. The heavy taxation of banks and commercial corporations fully warrants thorough investigation and discussion of all questions connected with municipal affairs. Reduction of the expense of civic housekeeping would please every chartered bank in Canada.

Although Canada is perhaps too young a country to contemplate struggling with the question of municipal ownership of street railways, gas-works and electric light plants, and although the housing problem, even in Montreal, Toronto and

Winnipeg, can hardly yet be considered one necessitating public intervention, the securing of the best possible management of municipal affairs is of engrossing interest to the student of affairs. Mr. Martin J. Berg finds in the rapid growth of cities good reasons for arguing that matters connected with municipal affairs should be regarded as of interest and importance. The good government of cities makes the question of municipal ownership one of absorbing interest to bankers, and it seems a pity that their assistance cannot, apparently, be obtained for the purpose of helping to determine what are the "public services to which a municipality may wisely apply itself".

Mr. Berg's article bristles with convincing illustrations of successful municipal ownership, and he certainly shows that where the exclusive use of public property is required, the fair, just and reasonable methods of handling these utilities lies in public ownership. It is absurd to say that good administration of municipal affairs cannot be had. The experience of Birmingham, Liverpool, Glasgow and other cities is the answer to the advocates of private ownership of public property.

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It is evident that the encroachments made by Express companies into the banking field in the United States are no longer to pass unnoticed by the bankers of that country. The American Bankers' Association has selected a committee to devise a plan for the issuance of bank money orders, and it is expected that within a few weeks these orders will be on sale in every town and city in the United States. Complaints are also heard from Canadian bankers of the aggressiveness of the American Express companies, and it is not unlikely that some action will soon be taken for the purpose of determining the scope of their rights and privileges in this country.

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**Bank Money  
Orders**

1910

The free circulation in Canada of United States money is the cause of frequent complaint among bankers and business men. Suggestions, some sound, and some senseless, for driving American money out of circulation are numerous.

**United States  
Money**

But as the responsibility of the United States government for the issue of such money cannot be questioned, and its consequent purchasing power is undeniable, it is useless to expect that Canadians will be swayed by sentiment in the matter of accepting the money of their neighbours in exchange for merchandise. There is not much in the argument occasionally heard that American money should be refused by our people because of the disinclination of their American cousins to accept the notes of Canadian chartered banks at their face value. It should be borne in mind that our banks issue notes of differing designs, and consequently it is easier to become familiar with the American paper currency than with that of the Dominion chartered banks. There is much to be said in favour of an arrangement being made by our banks with the Dominion government to replace American silver now finding free circulation in this country. The profit derivable from the seigneurage on the coinage and circulation of silver coin would repay the Dominion government for the expense incurred in collecting American silver and shipping same across the border.

The references made by bankers and others, to the circulation in Canada of American silver, and the numerous methods suggested for dealing with the difficulty, are merely echoes of the public feeling expressed through the Boards of Trade nearly half a century ago. In this issue of the JOURNAL, Professor Shortt tells of the time when the large amount of American silver in circulation was thought to be displacing the legitimate circulation of Canadian bank bills, and the mercantile community were requested, by the Toronto Board of Trade, to give effect to a decree that American silver be subjected to a discount of four per cent.

**The Silver  
Question**

The agitation over the matter resulted in action being taken by the Government in 1870. Several banks agreed to collect American silver and deliver it to the government agent for a small commission.

The Bank of Montreal, as the financial agent of the Government, received, stored and disposed of the silver in New York, and Professor Shortt states, in his History of Canadian Currency, that the total amount exported exceeded five million dollars, and that the consequent glutting of the New York market with its own silver, necessitated shipping the last million and a half to England, where it was sold as bullion.

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It is worth noting that a recent decision of the Supreme Court of Georgia virtually says that, as the essence of forgery is the making of a false reading with the intent that it shall be received as the act of another than the party signing it, the misspelling of the name of the ostensible signer does not prevent the act from being a forgery.

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Those who watch the movements in foreign exchange have been drawing attention to the fact that the thirty-two millions of gold received by the United States from Japan was transferred to Paris as the purchase money for the Panama canal. As the French people were at the same time making a loan to the Russian government, it would seem fair to infer that Japan has been unintentionally furnishing funds to be employed in prosecuting war against herself.

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Many years ago, one of the best of American humourists told a story of a boy who used to obtain peaceable possession of his little sister's playthings by promising her "the first fifty-cent-piece he found floating down the river on a grindstone".

**New Savings Bank** Commenting upon this promise of wealth, the humourist added:—"In all ages of the world this eminently plausible fiction has lured the infantile mind to financial ruin and disaster".

An advertisement lately inserted in a Montreal paper, warrants the statement that the infantile mind frequently fails to keep pace with the growth of the body. Promising that all business transacted with him shall be "strictly confidential" a self-styled "banker" publicly announces the opening of "a new savings bank" and that depositors will receive six per cent. interest for their money semi-annually.

Carried away by the possibility that the public may prove coy when confronted with this alluring six per cent., the benevolent banker closes his advertisement by saying "no doubt this enterprise will be very successful". By whom the success will be scored is not so clearly set forth as are the rate of interest and the strictly confidential character of the dealings between this banker and his clients. However, we hasten to commend this new savings bank to the notice of depositors—and also to the authorities.



## THE HISTORY OF CANADIAN CURRENCY, BANKING AND EXCHANGE.

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### MR. GALT'S NEW PLAN FOR A PROVINCIAL BANK OF ISSUE.\*

FROM very early days, the temptation to manipulate the currency of a country in the interest of a temporary increase of revenue, has appealed to impecunious ministers of finance, under whatever name, or by whatever constitutional authority they have performed their highly necessary, but usually unpopular functions. The history of Canadian finance furnishes no exception to the rule. Many sound arguments, it is true, may be advanced in favour of a paper currency issued on government credit, especially when redeemable in specie on demand.

In Canada, from time to time, in more or less abstract form, both good and bad arguments had been presented in favour of

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#### \* Chief sources :—

- Journals of the Legislative Assembly of the Province of Canada; with Sessional Papers, 1860-70.
- A History of Banking in the United States; by Wm. G. Sumner, New York, 1896.
- Speech of Hon. A. T. Galt, Minister of Finance of Canada, on introducing the Budget of 1862. (Quebec, 1862.)
- Speech of the Hon. A. T. Galt, Minister of Finance of Canada, on introducing the Budget, Ottawa, 1866.
- Sixty Years in Canada. By Wm. Weir, Montreal, 1903.
- The Relations of the Industry of Canada with the Mother Country and the United States, &c., &c. By Isaac Buchanan, Esq., M.P. Edited by Henry J. Morgan, Montreal, 1864.
- Money and Banking; a lecture; by Walter Arnold, Esq., Barrister, Toronto, 1862.
- Statements Relating to Trade, Navigation, Mining, &c., of the Dominion of Canada; and Annual Report of the Commerce of Montreal for 1867; by Wm. J. Patterson, Montreal, 1868.
- Statements Relating to the Home and Foreign Trade of the Dominion of Canada; also Annual Report of the Commerce of Montreal. Montreal, 1870.
- Hunt's Merchants' Magazine and Commercial Review*; New York, 1860-64.
- The Globe*; Toronto, 1860-70.
- The Leader*; Toronto, 1860-64.

such issues. But, as in the United States, they were never seriously proposed by practical politicians on their merits as monetary reforms. On every occasion they were brought forward primarily as means for the relief of an embarrassed treasury, a principal than which none could be more vicious, as regards a country's real currency needs.

Though Lord Sydenham's proposal for a government bank of issue was intended to meet the need for a more stable form of currency, yet, after all, that was only a secondary interest in his plan. The primary object, at the time, was to meet an urgent necessity for increased funds to carry out the new programme of public works.

Mr. Hincks, as we have seen, found himself compelled to resort, temporarily at least, to the issue of a provincial currency as the result of the crisis of 1847-8. Mr. Galt, in the next crisis of 1857-8, by his new tariff, first roused the ire of the British public by taxing British manufactured goods for the benefit of the Canadian revenue, and next drew the adverse criticism of the Americans, because his tariff was regarded as an infringement of the spirit, if not the letter of the Reciprocity Treaty. Still in financial straits, he thought he saw an opportunity to gain a further revenue from the reconstruction of the currency system on the lines of Lord Sydenham's measure. As a question of policy, however, it was to be justified mainly as a response to the general demand for a reform of the banking and currency system of the country. The official expression of this cry for reform was found, as we have seen, in the special report on currency and banking in 1859, and which criticized the careless chartering of new banks. Two of these banks had failed, and others were, with much reason, suspected of being of an equally speculative character. Mr. Galt thus appeared to consider that he had a sufficient mandate to justify him in reconstructing the currency and banking system of the province.

The speech from the throne, at the opening of the session of 1860, foreshadowed more or less radical legislation on the subject of currency and banking. In March the *Leader*, the chief government organ, led up to the coming measure by emphasizing the defects of the existing system of Canadian banking, defects, for most of which at least, the government itself had been largely responsible. The Canadian system was

represented as both better and worse than the American. It was not so good as that of the better Eastern banks, but much in advance of the prevailing type of bank in the West. The *Leader* made much of that real defect in the Canadian system, the lack of uniformity in the value of the bank notes, owing to the discount in one part of the province of the notes issued in another. A single bank of issue, it was urged, would furnish a paper currency which would be of uniform value throughout the country, for all the chartered banks would use the same notes.

It was also urged that under the existing system there was no adequate security for the note holders, since there was no means of testing the accuracy of the returns to the government. The recent bank failures gave point to this argument, and at that very time, as was soon to be proved, there were banks returning in their official statements as of full value numerous and important debts, some of which were very doubtful and others quite hopeless. The fact that the banks had all weathered the crisis of 1857-8 without suspension, was held to be no adequate proof of their soundness. It was urged that a single government bank of issue would afford a natural remedy for the defects of the existing system and insure stability of the provincial currency for the future.

A couple of weeks later Mr. Galt introduced a series of resolutions on the subject of a Provincial Treasury Department. The following is the substance of the resolutions:—

1. In order to place the currency of the province upon a sound basis, it is necessary that, at as early a date as is consistent with vested interests, no paper or notes intended to circulate as money and supply the place of coin, shall be issued in Canada, except where the redemption of them in specie on demand is guaranteed by the province.

2. For this purpose it is expedient to establish a Provincial Treasury Department, the notes of which, being redeemable in specie on demand, shall be a legal tender, except by the department itself, and shall be the only paper money to be issued in the province. The profits on this issue shall be the provincial revenue, and the department shall be subject to the following provisions:—

- (a) The Treasury Department shall not lend money, or carry on the ordinary business of banking. Its operations shall

be limited exclusively to the issue and redemption of provincial bank notes and arrangements for the payment of interest on the provincial debt in England. To this end it shall keep accounts only with the Receiver-General, the financial agents of the province in England, the chartered banks of the province and the Bank of British North America.

(b) So long as the total of the notes of the department do not exceed. . . . . dollars, the department shall hold one-fifth of the annual average circulation in specie and one-fifth in government securities. But when the amount issued exceeds that sum the government shall hold a further amount in specie, or government securities, or both, equal to the excess. The government may, for such purposes, grant the department a credit on the financial agents of the government to the extent of . . . . . dollars, and deliver to the department such amount of government securities as may be required. The government is also authorized to use the moneys of the Consolidated Revenue Fund for this purpose.

(c) The management of the department shall be vested in six governors and a manager, to be appointed by the Governor-in-Council. One or more branch offices of the department may be established at which notes will be redeemable.

3. No bank shall hereafter be established under the Free Banking Act, which shall be repealed, except as to banks now operating under it. No bank not now in actual operation shall be allowed to issue bank notes, and any charter already passed, under which a bank shall not be *bona fide* established within two years of the date of the passing of the charter, shall be null and void.

4. It is expedient to make the following provisions with respect to the existing banks:—Until the expiration of their charters, the banks may continue to issue notes under the conditions specified in the charters. But any chartered bank may surrender its privilege of issuing notes, and receive from the Treasury Department, as a secured loan, an amount of provincial bank notes equal to its average circulation during the previous three years; the average to be calculated for each month, so as to meet the periodic expansion and contraction of the circulation. The bank must pay the Treasury Department interest at the rate of three per cent. on three-fifths of

the said loan of notes, and interest at the rate of four per cent. on anything in excess of three-fifths when the average circulation for the month exceeds one-half of its paid up capital. Where the banks hold specie, an equivalent amount of notes may be deducted from those on which interest is to be charged. The notes advanced to the bank by the Treasury Department will constitute a privileged debt and be a first charge on all the bank's resources. Further, to be entitled to receive this note issue the bank must deposit in specie with the Treasury Department, one-fifth of its annual average circulation, and another one-fifth in provincial debentures, or Consolidated Municipal Loan Fund debentures. The total amount of provincial notes which the bank may receive shall not exceed one-half of its paid up capital. The acceptance of the proposed surrender of its note issue by any bank shall be optional with the Treasury Department. The chartered banks may make deposits with the Treasury Department, but such accounts must never be overdrawn, nor shall any cheque be drawn upon these accounts in favour of anyone other than another chartered bank. For any additional notes required, above what it is entitled to under the foregoing conditions, and for all interest due the Treasury Department, the bank shall pay in specie, or drafts on other chartered banks, or in exchange, at the option of the department. In the case of banks surrendering their right of note issue, the bank tax shall be repealed and also the clause in their charters requiring a certain investment in government debentures.

5. The Provincial Government shall have authority to raise, by means of its Treasury Department, any portion of any loan authorized by law, by the issue of provincial exchequer bills bearing a rate of interest not to exceed four per cent. per annum. These bills are to be issued to chartered banks for amounts not less than \$5,000, payable on demand, or to private parties for sums not less than \$2,000, payable one year after date.

Such was the plan by which Mr. Galt proposed to introduce a reliable and uniform paper currency, and at the same time derive a free loan from the country to the extent of several millions, less one-fifth of specie to be kept on hand, which specie would be obtained from the banks. The plan in its simplest

form was equivalent to an extension of the present Dominion note system to cover the whole note issue, or paper currency of the country. It was, however, considerably complicated by the existing bank charters, most of which would not expire until 1870. Though the plan provided for the voluntary surrender of their note issue by any or all of the banks, yet the inducements to do so were very negative indeed. It meant for the banks pretty much a voluntary surrender of the greater part of what was still their chief source of income.

At this time the banks assisted the national finances by a tax of one per cent on a portion of their note issue and by an investment of one-tenth of their paid up capital in government securities. By the surrender of all their note issue they were to be relieved from these conditions. But by taking the government note issue they would be required to deposit specie to the extent of one-fifth of it and government securities for another fifth, while for the remaining three-fifths they were to pay three per cent. interest, and in certain cases four per cent. Should the bank require more notes than half of its paid up capital it must purchase them by an equivalent in specie or exchange. Obviously the banks were not likely to regard with favour any such scheme, and we are not surprised to learn that, notwithstanding the efforts made to convert them to the new scheme, no single bank expressed a willingness to give up its note issue on the terms offered.

Though the general public were much more interested in questions of currency than during Lord Sydenham's time, yet they were not so certain that the proposed plan, even though aiding the national treasury and promising greater uniformity and security for the paper money of the province, might not bring other and more dangerous evils in its train. One of the objections to the government measure most strongly urged by the opposition, was the possibility for sinister political interference. As a government institution it seemed to place in the hands of the party in power an instrument of political influence with far-reaching consequences. Canadians still remembered the political agitations in the United States connected with their two great national banks. Moreover, the experience of the Canadian government in its financial alliance with the Bank of Upper Canada, details of which were gradually coming to the

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public ear, was not at all reassuring as to the wisdom of the Government's dealings with paper money. Others took more scientific ground in dwelling upon the danger of encouraging the Government to resort to the issue of a paper currency when in financial straits.

In his speech in the Legislature in support of these resolutions, Mr. Galt scouted the idea that the proposed Treasury Department could be in any way a factor in party politics. He strongly emphasized the distinction between the currency and banking functions in the national economy, and maintained that the former fell within the legitimate sphere of government control, while the latter properly belonged to private enterprise. He pointed out that during the panic of 1857-8, all the Canadian banks found it necessary to reduce the assistance to their usual customers in order to protect themselves, with consequent embarrassment or ruin to merchants and others. With much less success, he tried to maintain that the proposed plan would not diminish the elasticity of the Canadian currency, which from the first had been one of its most essential features. The object of the plan he described as the establishment of a mint of paper instead of a mint of gold, which was true enough, in a way, but fatal to the principle of elasticity. He proposed that the limit of the issue should be \$10,000,000. As he also pointed out, the Free Banking Act had endeavoured to secure the object aimed at in this measure, but in a less thorough manner.

The more the plan was discussed the more its defects rather than its merits came to the surface. The bankers and other practical men familiar with the needs of the country, proved quite conclusively that the scheme would be fatal to the primary need for an elastic currency. Owing to the fact that the great staples of Canada were agricultural, and its transportation system periodically suspended by a northern winter, the differences between the late autumn and early summer issues of the banks amounted in normal years to upwards of one-fourth of the total circulation. In 1858 the bank note circulation had ranged from \$8,050,000 in May to \$10,700,000 in November. In 1859, from \$8,100,000 in May to \$11,800,000 in November; and in 1860, from \$9,450,000 in May to \$14,750,000 in October.

Under the existing system, when not under the paralyzing influence of a crisis, the banks furnished these large extra needs for currency at almost no expense or inconvenience to themselves or the country. But under Mr. Galt's scheme they would have had to furnish specie, or approved capital, to at least the extent of these differences, in order to obtain the extra amounts in government notes, yet much the greater part of the increase was needed for only three months of the year—October, November, December. Obviously, then, the banks must have at command a much larger quantity of capital than they normally required for nine months of the year, and suffer the loss of profit on it for that time, or, adjusting their capital to the average needs of the year, the whole trade of the country must suffer severe injury for lack of currency to move the crops.

As the discussion continued, this vital fact became more and more evident even to Mr. Galt, who at first had strongly criticized the cheap system of the Canadian chartered banks, with its wide fluctuations in circulation. A cheap system with wide fluctuations is undoubtedly dangerous in most cases and open to much theoretic criticism generally, yet in Canada in those days, and even up to quite recent times, a cheap system with wide fluctuations is indispensable to the peculiar needs of the country, while not necessarily dangerous.

When the proposed scheme was discussed by the Toronto Board of Trade, in the beginning of April, 1860, the president of the Board, Mr. W. P. Howland, who was also a member of the Legislature, stated that Mr. Galt was prepared to admit modifications in the details of the plan if the measure were admitted in principle. The Board appointed a committee to confer with the banks and other moneyed interests, and, on the subsequent report of this committee, it was resolved to petition against the measure. At the same time the Board was still of opinion that the existing bank system might be considerably improved, especially in the matter of security, and admitted that Galt's scheme was not without its good points.

The Quebec Board of Trade was of opinion that so important a matter should not be forced to an issue during the session in which it was introduced.



Finding the banking and commercial interests very generally opposed to his measure, Mr. Galt took advantage of the suggestion that fuller time should be allowed for the discussion of his proposals. On April 20th it was announced that, after the resolutions introduced by Mr. Galt had been discussed by the House, they would not be further pressed during that session. The financial situation of the country having considerably changed during the following year, Mr. Galt found it necessary to make more immediate arrangements to meet the urgent needs of the revenue.

The Civil War having assumed serious proportions before the next session of the Canadian Legislature, in March, 1862, the trade between the United States and Canada was very seriously affected. Imports from the United States were greatly reduced. The provincial revenue suffered a reduction of nearly one-third, and Mr. Galt had to meet a deficit of over five millions on an expenditure of \$12,500,000. Obviously this was beyond the immediate possibilities of his provincial note scheme. He therefore abandoned his measure for the reform of the currency and fell back upon the last resolution of the series, which authorized the raising of any portion of a provincial loan by the issue of provincial exchequer bills, bearing interest not to exceed four per cent. The bills were to be payable on demand when issued to the banks in sums of not less than \$5,000 each, and payable in one year when issued to the general public in sums of not less than \$2,000 each. In 1862, he obtained authority to issue \$4,000,000 of these bills. He proposed to allow five per cent. interest on them, and to extend their period to two years. But, in order to encourage the banks to hold them, and, quite generally, to promote their disposal and currency, they were to be redeemable on ten days notice.

Notwithstanding all the financial expedients of the Government, the finances of Canada remained in a very unsatisfactory condition until after Confederation. In 1866, Mr. Galt, being once more in power after an interval in opposition, and finding a growing distrust of Canadian loans on the part of British investors, revived his plan for securing financial aid by tapping the currency fund of the country. On this occasion he was

more successful, being able to make use of the Bank of Montreal, which had in the meantime become the financial agent of the Government. The details, however, belong to another chapter.

In the meantime the country had gone through several important financial experiences which considerably modified the views of the Canadian business world with regard to the possibilities and limitations of paper money. In the interval between Mr. Galt's two provincial currency schemes, the American Civil War ran its course, greatly affecting the previous commercial and financial relations of the two countries and leading, among other things, to the abrogation of the Reciprocity Treaty, which had exercised so important an influence upon the character of Canadian industry and the direction of Canadian commerce.

The recovery from the crisis of 1857-8, which began in 1859, continued during 1860, but the tardiness of returning confidence showed itself in the growing accumulation of deposits in proportion to the other features of the bank returns. A portion of the increasing bank deposits was no doubt correctly attributed to the influx of British capital seeking investment, and being attracted by the high interest of eleven to twelve per cent. obtainable on mortgages. The outbreak of the American War rendered permanent investment still more uncertain and checked the demand for capital, with the result that during 1861 the rate of interest on mortgages declined to eight to ten per cent.

In the latter part of 1860 the leading Canadian banks,—the Bank of Montreal, Commercial Bank, Bank of Upper Canada and Bank of British North America,—sent representatives to a meeting in Toronto to devise some plan of mutual harmony and co-operation, which would prevent for the future that war of all against all which resulted in so much jockeying for each other's specie. This rivalry had made the banks themselves the chief causes of their own abnormal restriction in times of uncertainty. Moreover, the banks began to realize that suspicion attaching to any one of them largely affected the credit of the others in the estimation of the public. As a

result of the meeting it was announced that henceforth the banks were to stand together, affording mutual assistance as far as possible in the matter of specie and the acceptance of each other's notes. The movement was of special significance for the Bank of Upper Canada, whose credit of late had been rapidly falling. Though, as it proved, incapable of complete recovery, yet the bank was now for a time considerably supported.

As the domestic troubles of the United States became more threatening, business became more unsettled and the money market more feverish. Though domestic trade was interrupted, yet for a time foreign trade was maintained. The exports of the United States, stimulated by the large harvest of 1860, increased, while the imports diminished. Thus, in the latter part of 1860 and during the greater portion of 1861, money accumulated in the Eastern banks and specie flowed in from Europe. Exchange on Britain fell to four to five per cent. nominal premium, equivalent to five to four per cent. of real discount. Still the Canadian banks continued to charge seven to eight per cent. premium for sterling exchange. One result of this difference was that a considerable quantity of gold was withdrawn from the Canadian banks and sent to New York to purchase exchange, the result being that the specie in Canadian banks fell from \$5,010,000 in November, 1860, to \$4,070,000 in March, 1861. At the same time Canadian bank exchange on New York rose from a quarter to a half, its usual range, to one per cent.

Another feature of the American situation, of interest to the Canadian banks, was connected with the Western grain trade. The North-Western states had naturally developed an extensive trade in grain and provisions with the cotton states of the South, by way of the Mississippi route. The Southern market closing up, the surplus Western produce sought an outlet through the East. From the time of the introduction of the Reciprocity Treaty in 1854 up to 1860 it had been customary for American capital from the Eastern States, to move not only most of their own Western crops, but a great part of the Canadian surplus also. In 1860 and 1861 this arrangement

was broken up and a more extensive direct trade with Britain, and even with the continent, especially France, was developed. Further, the Canadian dealers not only looked after their own exports, but, especially during the season of 1860-61, dealt extensively in Western American produce from Chicago and Milwaukee. Thus, instead of upwards of one million dollars of American capital coming into Canada to assist in moving crops, the Canadian banks not only supplied most of the funds for this purpose, but, as was estimated, contributed considerably over a million and a half towards the movement of the Western America crops. This change is directly reflected in the circulation returns of the Canadian banks, which rose from \$11,800,000 in November, 1859, to \$14,750,000 in the autumn of 1860.

This new business was greatly encouraged by the peculiar currency and exchange conditions which accompanied the other changes in trade. Owing to the unsettled conditions of trade, and the fact that many of the Western banks held as securities the debentures of Southern States, these banks found themselves in financial straits and their paper passing to a discount. In Chicago, exchange on New York rose to a premium of nine to ten per cent. in local currency. At the same time the notes of the leading Canadian banks as yet suffered no discount in the West. Here was the opportunity for the Canadian grain and produce dealers. Through their arrangements with the Canadian banks they were able to purchase Western produce at very favourable rates and pay for it in Canadian bank notes at par, or in New York exchange obtained in Canada at one per cent. premium and disposed of in Chicago at a very considerable increase. As usual, however, such profitable speculative business tended to be overdone. European and Eastern markets were glutted and there was a fall in values, which told heavily upon Montreal produce and lumber merchants and, to a certain extent, upon some of the banks as well.

The plethora of specie in New York during the early part of 1861, accompanied by stagnation of commercial enterprise, produced a curious secondary effect upon the Canadian banks and their issues. By the middle of May a number of Western

American banks had suspended, and their notes were at a discount of fifty to sixty per cent. Exchange on New York rose to a premium of over twenty per cent., and business was rapidly passing to a specie basis. Owing to the accumulation of specie in New York and the East, sterling bills were a drug in the market and English sovereigns were selling at \$4.80 to \$4.81. Now the Canadian banks could redeem their notes in sovereigns at the fixed value of \$4.86. This permitted them to raise their exchange on New York to the equivalent rate of one and a half per cent., there being few commercial bills to compete with them, owing to the falling off in the American market for Canadian produce. This, in turn, reacted upon the value of Canadian notes in such Western centres as Detroit, Chicago and Milwaukee, where they fell to a discount of two per cent. In the two latter centres the Canadian banks were criticised for their unwise policy of sacrificing their Western circulation by taking advantage of their peculiar relation to English gold to raise their rate of exchange on New York. To meet the difficulty, as regards its circulation in the Western States, without sacrificing its advantage in Canada, the Bank of Montreal established an agency in Chicago, where its notes were redeemed in direct exchange upon New York at the usual specie rate of three-quarters per cent. premium. The result was that Bank of Montreal notes continued to pass at par throughout the North Western States, while other Canadian bank notes, in the leading centres at least, suffered a discount of two per cent. It was estimated in a report of the Toronto Board of Trade that upwards of \$3,000,000 of Canadian bank notes had been put in circulation in the North Western States.

It became evident during the latter part of 1861 that the Civil War in the United States was going to be a very serious affair. The federal government had disposed of extensive loans to the banks which they found it increasingly difficult to transfer to the public. With more government loans in sight and the prospect of a government issue of paper currency the banks found themselves forced to suspend specie payment on December 30th, 1861. During the progress of this movement the speculative advantage of holding specie was very speedily re-

cognized and the price of exchange at New York rapidly advanced. From the beginning of November, 1861, to the beginning of January, 1862, sterling exchange rose from a hundred and seven, or more than two per cent. below par, to a hundred and fourteen and a half, or over five per cent. premium. By the middle of February it had reached a hundred and fifteen and a half with still higher rates in prospect,—a prospect fully realized.

Under these conditions the exchange relations between Canada and American centres were soon reversed. Canadian exchange on New York passed rapidly from an unusual premium to an abnormal discount. Canadian bank notes were no longer questioned in the Western States, where they rapidly rose through par to a considerable premium, being eagerly bought up to be returned to Canada for specie. Before midsummer, 1862, over a million dollars in Canadian notes had been returned from the United States, and the remainder soon followed. Thus came to an end the extensive circulation of Canadian bank notes in the United States, to secure which had been one of the great objects of the leading Canadian banks, and under the shadow of whose credit various speculative banks had sought to share in the profits of the business.

It was commonly supposed that the suspension of the banks in the United States might involve suspension in Canada likewise. But the conditions were very different from those of a general commercial crisis. The dislocation of trade due to the war had, it is true greatly deranged the hitherto important trade between Canada and the United States, but in doing so it had greatly diminished the imports from the United States, which usually required large payments to be made there. In the second place, the Canadian notes in circulation in the United States having returned to Canada, there remained no American command upon the specie of the Canadian banks. The chief danger lay in the temptation to the banks themselves, in the early period of the war, to indulge in speculations in specie and exchange,—a temptation which one or two prominent bank managers did not altogether forego. But for the most part Canada on this occasion not being indebted to the United

States, suffered little or no inconvenience from the American demand for specie.

At the same time, on general principles, the Canadian banks found it necessary to be very cautious in the granting of discounts. As a result there were a number of complaints about the unusual stringency of bank accommodation, and the consequent embarrassment of trade. These facts were seized upon by a growing party in the country carrying on an agitation, on the platform and through the press, with an occasional petition to the Legislature, in favour of the adoption of an inconvertible paper currency. This currency was to be issued by the government and to be employed in purely domestic exchange, which was held to be quite independent of the specie basis required in international trade. Moreover, an inconvertible paper currency was, with excellent logic, held to be superior to all other schemes for the protection and isolation of native industry.

Mr., afterwards the Honorable Isaac Buchanan, was the most influential advocate of an inconvertible paper money as a national currency. As president of the Toronto Board of Trade in 1837, he had been chiefly instrumental in securing the suspension of specie payment in Upper Canada at that time. He had advocated suspension at each subsequent crisis, and he now led a very vigorous agitation in favour of suspension in imitation of the American banks. Many of his ideas on paper currency were sound enough in a way, but for a man so closely identified with some of the largest commercial enterprises in Canada, he was singularly theoretic and abstract in all his economic reasoning, and this tendency doubtless contributed to the failure of the extensive business, to the head of which he succeeded on the death of his brother. In the question before us, he failed to see that the justification for temporary suspension in 1837, or even in 1857, had little or no force under the circumstances of the American Civil War. The curtailment of discounts in 1862 was only a matter of ordinary precaution on the part of the banks, in the face of a very uncertain outlook.

After the outbreak of the war, owing to the greater curtailment of imports from the United States than of exports of

Canadian produce, there resulted a balance against the United States which had to be met in specie of exchange. Owing to the falling off in American exports to Europe, there was little exchange to be had. In the matter of specie, since paper had become the only currency of the country, large quantities of silver were available for export for necessary purchases; and silver being cheaper than gold, large quantities of it were brought into Canada in payment for provisions.

American silver had always met with a ready acceptance in Canada, and it was not many years since it had been at a premium of three to four per cent. as compared with gold. It was still legal tender up to ten dollars. It was, therefore, some time before the Canadians realized that the country was being inconveniently flooded with it. The banks first showed a growing aversion to it, ending in a general refusal to take it, except in small quantities from regular customers. One cause of its increase lay in the speculative trade of a number of brokers, who, taking advantage of the fact that the premium on silver in the United States was five to six per cent. below that on gold, brought over silver, and in various ways managed to exchange it for Canadian bank notes, which they converted into gold. Though there were loud complaints of such speculative dealings, yet they do not seem to have been so very extensive, and certainly did not last long, owing to the increasing difficulty of exchanging American silver for Canadian bank notes.

The banks began to refuse American silver about midsummer, 1862, and the merchants were warned against accepting it from their customers, in large quantities at least. Merchants, however, were pleased enough to take it in payment of outstanding debts, and, in discussions on the subject in boards of trade, it was very generally admitted that the large influx of American silver had been a positive benefit to the mercantile community in the way of facilitating the collection of many debts which otherwise might have been hopeless. Had Canada been buying as freely from the United States as usual there would, of course, have been no difficulty with the American silver which would have been returned in payment for goods. But during the war Canada was chiefly interested as a seller



of produce. Hence, with an inconvertible paper currency in the United States, it either remained impossible to purchase from Canada,—a sample of Mr. Buchanan's ideal protection for American producers,—or purchases must be regulated by specie; and the most available specie was silver. Even on that basis trade was greatly crippled. On a gold basis alone it would have been still more limited, because, in the first place, gold was very scarce, and, in the second, Canadians could not have obtained as good a price for their produce in gold as in silver. The Canadians, therefore, were not necessarily unwise in taking American silver for their produce. Yet it was only reasonable that the silver should pass in Canada at some reasonable discount as compared with gold, or notes on a gold basis. The Canadian banks naturally refused to take the silver at par. But when they refused, as most of them did, to take it on any terms, their refusal simply reacted upon themselves. It forced the silver to remain in circulation and to that extent diminished the need for Canadian bank notes. The American silver was extensively used in the payment of wages, in retail trade, and in the purchase from the farmers of grain and cattle for the American army. The banks refusing to take it, the merchants in whose hands it accumulated sold it to brokers, and the brokers in turn sold it again to produce dealers, employers of labour, and others. It was estimated that during the chief period of its circulation, as much as \$80,000 per day was exchanged in Montreal alone, and quite a number of brokers obtained the chief part of their income from this traffic.

In November, 1861, the outstanding circulation in Canadian banks amounted to \$15,000,000. A year later it amounted to only \$10,300,000. Allowing a certain portion of the decrease as due to a short harvest and stagnation in trade, still a considerable portion of the decline was evidently due to the replacement of bank notes by American silver. This is further supported by the fact that the deposits and specie in the banks had considerably increased during the same period. The banks themselves estimated that the presence of the American silver had reduced their circulation by at least one million.

In an editorial on the currency situation, December 12th, 1862, the *Globe* recommended that the American silver be accepted in trade, but only at a discount of five per cent. It referred to the fact that the Toronto Board of Trade had virtually settled a similar difficulty connected with the English shilling, by inducing the mercantile community of Western Canada to accept it at only twenty-four cents. The Montreal Board of Trade having declined to deal with the question, the merchants of that city had been troubled with the shilling ever since.

One Montreal wholesale house discovered a use for American silver, in sending it to China to pay for tea.

The London Board of Trade, being in the centre of a district where purchases on American account were quite extensive, was the first to take action on the silver question, following the suggestions of the *Globe*. At a meeting about the middle of December, 1862, it was decided, by a vote of eight to five, to recommend everyone to demand payment, as far as possible, in gold, or Canadian bank notes, but, should it be necessary to accept American silver, to take it only at a discount of five per cent. A couple of days later the Toronto Board of Trade, at a special meeting, took up the matter. The secretary had interviewed various bank managers and found that the Bank of Upper Canada was the only one willing to accept American silver, but only at a discount of seven per cent. The post office and customs house also accepted it at seven per cent. discount. After a long discussion, in which many interesting practical phases of the question were brought out, some favourable, but the majority adverse to the circulation of American silver, the following resolution was finally passed:—

“Whereas a large amount of American silver is now in circulation, displacing the legitimate circulation of our bank bills, and whereas the said silver currency cannot be made available for business purposes unless at a considerable discount, be it therefore resolved that from and after this date this Board recommends American silver to be taken at a discount of four per cent., and that the mercantile community be respectfully requested to give effect to this resolution.”

The Toronto merchants appear to have quite generally acted on this recommendation, and it was expected that outside merchants would do likewise. Again the Montreal Board of Trade could not agree on any regular policy with reference to the silver problem, and, indeed, the brokers were rather interested in leaving things as they were.

The war lingering, the American purchases continued, and the country filled up with American silver, which remained in circulation during the financial reconstruction after the close of hostilities. It caused much inconvenience owing to the difficulty of enforcing discounts, or avoiding losses in disposing of it. Appeals were made to parliament in 1868 and it was discussed by a special committee of the legislature. Sir John Rose, finance minister, through the Bank of Montreal, the financial agent of the government, managed to export one million dollars of it, having previously sought to check its importation by a duty of twenty per cent. Neither remedy, however, appeared to have much effect upon the supply in the country, while the outbreak of the Cuban war delayed the restoration of normal currency conditions in the United States.

Sir Francis Hincks having returned to Canada in 1869, succeeded Sir John Rose as minister of finance. Being appealed to on the subject of American silver, he undertook to deal with it in 1870. He considered that a very essential feature of any permanent remedy must be the provision of an adequate quantity of silver currency, made legal tender to the extent of ten dollars, to take the place of the American silver. Until the new coins could be procured, and as a test of the quantity of them required, he proposed to follow an American example and issue a fractional paper currency redeemable, however, in gold. These fractional notes were to be issued as a substitute for American silver, and, as far as possible, in exchange for it. He proposed also to declare by proclamation that after a certain date American silver, while remaining legal tender as before to the extent of ten dollars, should be placed at a discount of twenty per cent., and that in the meantime the government should receive whatever was offered at a discount of say four per cent.

Mr. William Weir was commissioned to discover how far the banks and other moneyed interests would co-operate in this

plan to dispose of the American silver. He found that very general co-operation could be counted upon, but that the banks, as a rule, were opposed to the issue of a fractional paper currency. Some of the bank managers considered that no permanent remedy could be effected until the United States resumed specie payment. They also doubted the wisdom of removing any large volume of the United States silver then in circulation, before making adequate provision for its immediate replacement.

In his circular letter to the banks and leading boards of trade, dated 27th January, 1870, Sir Francis Hincks stated that, before declaring the proposed twenty per cent. discount on the American coins, the government would receive three millions of American silver at the following rates; the first million at five per cent. discount, the second at five and a half, and the third at six per cent. discount. As a substitute for the American silver, a new Dominion silver coinage of fifty and twenty-five cent pieces would be provided, to the extent of one million dollars, and, in the meantime, fractional notes of twenty-five cents each would be issued, redeemable in gold in sums of five dollars. A number of banks had offered to collect American silver and deliver it to the government agent at a commission of one-quarter per cent. and the cost of the freight. These terms were accepted.

The brokers naturally opposed the government measure as being injurious to their business. But the process of collecting and disposing of the silver, once started, went briskly forward. The Bank of Montreal, as the financial agent of the government, received, stored and disposed of it in New York. The total amount exported was upwards of five million dollars, but, owing to the glutting of the New York market, the last million and a half were sent to England and sold as bullion. The total expense to the government was a hundred and eighteen thousand dollars, which was much more than covered by the profit on the new coinage.

Thus did the American Civil War result in the distinct separation of the currencies of the United States and Canada. At the same time their monetary denominations and gold basis became identical and their exchange relations more normal and intimate than ever.

ADAM SHORTT.

## BANKERS' RIGHTS ON FORGED SIGNATURES

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BY CHARLES M. HOLT, K.C.

A RECENT judgment of the Supreme Court of Canada<sup>1</sup> has thrown a good deal of light upon a matter of importance to bankers and their clients and to business men generally, i.e. as to how far circumstances may make a business man liable upon paper upon which his signature has been forged.

It has settled the point that a business man is taking large risks in not immediately notifying (by wire if necessary) any bank which he knows to be in possession of paper purporting to bear his signature and which he knows to be forged. And this risk is incurred even where there is no business dealing between the merchant and the bank in question.

The case recently decided in Canada was upon the following facts:

One Wallace was the manager of a business carried on by Walter C. Bonnell under the name of the Thomas Phosphate Company, which, previous to the 14th August, 1900, had done some banking business with the bank, the plaintiffs. On the 15th August, Wallace produced a note to be discounted by the bank for the Phosphate Company and the proceeds were placed to the Company's credit. On the 15th and 16th August, cheques were issued by the Company against the proceeds of the deposit and other small deposits, payment of which left a balance to the credit at the close of the business on the 15th of \$1,611.55; on the 16th of \$1,255, and on the 17th of \$84.

On the 15th the bank wrote to the defendants, who resided in Montreal, in the following terms: "Toronto, August 15th, 1900. You will please take notice that your note for \$2,000, to the Thomas Phosphate Company, falls due at this bank on

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<sup>1</sup> Ewing & Dominion Bank. Judgment in Supreme Court, June, 1904, not yet reported.

the 17th December, 1900, and you are requested to provide for the same. A. P., assistant-manager. To Messrs. Ewing & Co., Montreal."

This was received by the defendants on the morning of the 16th August. To the bank they made no response, but between themselves and Wallace an active correspondence by telegraph and letter was kept up, beginning on the 16th August and ending on the 6th December; on the defendants' side first asking for an explanation "before advising bank" and then urgently insisting on the note being taken up; while Wallace's letters were filled with the usual regrets and excuses for his conduct, and vain promises to settle the note and relieve the defendants.

On these facts two questions arose. First, was there any imperative duty on the part of Ewing & Co. on the morning of the 16th August, when they received the above letter or notice from the bank, to at once notify the bank that the note was not genuine? and if not, did such imperative duty arise at any time afterwards and if so when? Ewing & Co. strongly contended that at no time did such imperative duty arise, but that if they were wrong and it did arise it did not do so until after the 20th or 21st August when they had a personal interview with Wallace, who then practically confessed the forgery to them. It seems hard to follow the reasoning which, assuming the duty to exist, at all, would postpone it until the 20th or afterwards. It seems, as one of the judges remarked, that if there was a duty at all that duty arose immediately on receipt of the notice from the bank on the 16th August. If under the circumstances, there was any room for reasonable doubt as to the genuineness of the signature, or any reason to believe that a mistake had been made in the notice which enquiries would clear up, Ewing & Co. would have been entitled to the necessary time to make proper enquiries. But there did not appear to be room for doubt on this point. Both William Ewing and James H. Davidson, the only members of the firm of Ewing & Co. were examined at the trial and they both stated that they neither of them ever authorized any other person to sign the firm's name to any note; that they never used or gave any accommodation paper in their business, or signed any bank notes and that the note in question was a forgery. They knew they

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had never given or authorized the giving of such a note as the bank had advised them of, and the only reason given for not immediately notifying the bank was that given by Mr. Ewing, that he thought it might be a draft made on them and not a note. The court refused to accept this as the true explanation. The notice said nothing about a draft and did not use any language from which a business man could believe a draft was intended. If it was a mere draft, a notice would not have been sent by the bank, but the draft itself would have been sent for acceptance. Ewing & Co. knew it could not be an acceptance any more than a note for they had never signed or authorized the signing of either, and the fact that in the telegram sent by them that day to Wallace, the managing clerk of the Phosphate Co. and also in the letter confirming that telegram, they made no reference to any draft or to the possibility of there having been any such mistake made, but spoke of the document held by the bank as a note, and repudiated the fact that the Phosphate Company held any note of theirs, satisfied the court that they were not under any doubts or delusions on the subject at all. However, be that as it may, they got a telegraphic answer from Wallace that evening at 6.14 p.m. which could leave no possible doubt in their minds that the document was a note and not a draft, and that it was in the hands of the bank and was, as they knew, a forgery. Assuming for the sake of argument, that Ewing & Co. were justified in waiting until they had received Wallace's answer, they knew on its receipt that the bank, respondent, was in possession of a note of theirs which they must have known was forged for \$2,000, and which they had been formally "requested to provide for" at maturity. A whole day had been lost in making a useless enquiry. But even assuming the duty to notify the bank of the forgery did not arise until the receipt of Wallace's telegram, there was nothing the court thought to prevent this notice then being sent either by telephone or by telegraph. Ewing & Co. contended that, assuming the duty existed or arose on the receipt of the telegram from Wallace it would have been discharged by the writing of a letter in the ordinary course of mail on the following day, the 17th, which could not if written and posted, in business hours, reach the destination until the 18th when it would be useless as all the proceeds arising from the discount of the forged note had then been paid out by the bank. But this

pretension was rejected by the Supreme Court. Given the existence of an imperative duty, said the court, given the fact that it did not arise until after the receipt of Wallace's telegram, after business hours on the evening of the 16th, on what principle can it be discharged or fulfilled by mail alone. Is there any magic in the "mail" which makes it alone the proper vehicle for transmitting business information. Is there any reason why the ordinary mail or post having been missed resort should not be had to the telegraph or in some circumstances to the telephone? Between the cities of Montreal and Toronto there existed telephonic and telegraphic communication as well as mail. Is it to be held by the courts that in the present day, where such a proportion of business is carried on by means of the telephone and telegraph, that in a matter of urgency and moment involving some thousands of dollars, and where a few hours' delay might be fatal, resort must not be had to one or other of the speedier methods of communication, but must be confined to the mail alone. Is it reasonable that business customs and habits in a matter of this kind should be ignored? The court thought not and was satisfied that if the imperative duty existed at all, it should have been discharged on receipt of the bank notice and if delay was sought to get information from the suspected forger, then at the expiration of that delay, notice should have been given to the bank either by telephone or telegraph, which would have reached them on the morning of the 17th, and while the larger part of the proceeds of the note were still lying in the bank and subject to its control.

The court passed by all technical criticism as to the form of the notice, and looking at its substance found it furnished Ewing & Co. with all possible information they could require as to date, amount, due date, payee, maker, etc., of the note, winding up with a request that they should provide for the same. Nothing was wanting to inform them that a note professing to be theirs was in the hands of the bank, and was being treated by them in the ordinary business way as a genuine note, and that the bank looked to them for payment. They knew it was a forgery. As between them and the bank their knowledge was exclusive. Instead of imparting it to the bank on receipt of its letter or notice they entered into prolonged telegraphic, written and personal communications with the forger, lasting



up to within a few days of the note falling due, when, in reply to the usual notice requesting payment, they, *for the first time, repudiated the note.* From their silence after the first notice sent them the bank naturally assumed the genuineness of the note, and acting on that very natural assumption paid out the larger portion of the proceeds of the discount of the note, all of which would have been saved to them had Ewing & Co. on the 16th, or on the beginning of the business hours of the 17th, given them the information they should have given.

Again, it was contended that this was a suit to prevent a man from speaking the truth, and to compel him to pay a note he never made, or authorized. But the answer the court held was simple. The very basis of the doctrine of estoppel is that a man may by his representations or by his silence, or by his conduct towards his fellowman if followed by the latter's consequent loss prevent himself from setting up that to be true which he had induced another to believe was not true.

The important question was whether there was any duty in the matter at all on the part of Ewing & Co. to give information to the bank of the forgery when they received the notice of the 16th August. It was argued that as there was no business relationship existing between the bank and Ewing & Co. at the time such as that between a bank and its depositors or customers so there was no duty to respond to the bank's notice. Such a relationship did exist between the parties in the case of the Leather Manufacturers Bank vs. Morgan, 117 U.S. 96. In that case it was laid down by the Supreme Court of the United States that where cheques had been drawn by the plaintiff, a customer in the bank, and after having been fraudulently altered had been paid by the bank and charged up against the plaintiff, if the alterations might have been discovered by the latter by the examination of his pass book, and advised of in time to enable the bank to take certain action which might have prevented it sustaining loss, and this had not been done, he would be estopped from claiming for the sums paid out on the altered cheques. The basis on which the doctrine of estoppel rests is discussed in this case at great length, and the rule laid down by Parke B. in *Freeman vs. Cook*, 2 Exchq. 654-662 approved of, namely, "If whatever a man's real intentions may be he so conducts himself that a reasonable man would take the

representation to be true and believe that it was meant that he should act upon it as true, and did act upon it as true, the party making the representation would be equally precluded from contesting its truth and conduct by negligence or omission. When there is a duty cast upon a person by usage of trade or otherwise to disclose the truth it may often have the same effect."

The court in this case now under discussion<sup>1</sup> refused to confine this duty to cases where such relationships already exist as between banker and customer or seller and buyer. It considered that in such a country as Canada where such a large proportion of its business is carried on by credit evidenced by drafts and notes, which are discounted by one or other of the chartered banks of the country, the usages of trade which creates the duty apply to all persons engaged in trade, who are notified of the holding by one of these banks of a note or draft professing to be theirs. It refused to accept the contention that such a duty would exist as between the bank and Ewing & Co., if the latter was a regular customer of the former and would not exist otherwise. And it held that the duty naturally arises out of the usages of trade as they exist. Banks do not confine their discounts to those of their own customers only. It is known to every one engaged in trade, that a large part of a bank's business consists in the discounting for its customers of commercial paper professing to be that of other merchants or traders. And when a business man receives such a notice from a bank as Ewing & Co. did in this case, if such notice contains information of a forgery and fraud being practiced upon a bank, in the unauthorized use of the name of the person or persons notified, the latter are bound in every principle of justice and right dealing between man and man, and in accordance with the usages of trade, within reasonable time to give the bank notice of the fraud. Any other rule would seem to be fraught with grave danger; would generate want of confidence in the ordinary business relations of life and would offer a premium upon gross business negligence. Lord Campbell expressed the true rule to be followed in *Caircross vs. Lorimer*, 2 Macq. 827, at page 830, in the following terms:—

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<sup>1</sup> *Ewing & Dominion Bank.*

"I am of opinion that generally speaking, if a party having an interest to prevent an act being done, has full notice of its having been done, and acquiesces in it so as to induce a reasonable belief that he consents to it, and the position of others is altered by their giving credit to his sincerity, he has no more right to challenge the act to their prejudice than he would have had if it had been done by his previous license."

Reason and common sense are sufficient, if positive authority is wanting to show that as between commercial men and banks or other kindred institutions there exist duties with respect to business notices and conditions which have no application to, and are not governed necessarily by the principles and rules which control in the cases of other letters and notices on private or personal subjects. An example of such letters is to be found in the case of *Wiedman vs. Walpole* (1891), 2 Q.B. 534. But the law which justifies and approves of a man ignoring impertinent or threatening letters relating to his private life or moral character, to which he is under no moral or legal obligation to give any answer, necessarily adopts a different rule with respect to ordinary business letters or business matters. Mere silence per se on the part of one who should speak is not sufficient as an admission or adoption of liability or as an estoppel to prevent him denying his signature. But such silence, coupled with material loss or prejudice to the person who should have been informed, and which prompt and reasonable information would have prevented will so operate. Such a person under such conditions comes within the rule that *where a man keeps silence when he ought to have spoken, he will not be permitted to speak when he ought to keep silent.*

The case of *McKenzie vs. British Linen Company*, 6 A.C. 82, is one where no previous direct business relationship existed between the parties and it was appealed to by both parties in the *Ewing* case as authority for their respective contentions. The actual decision in that case was that *McKenzie* who had been sued as an endorser of a note on which his name had been forged was not liable though he had remained silent for a fortnight after he had received notice of his name being on the note. But the reasons of the House of Lords for so holding was, that the position of the bank was in no way prejudiced or altered during the time *McKenzie* had remained silent. It

seems quite clear that in the judgment of all of the Law Lords who delivered opinions in that case that had the position of the bank been materially prejudiced or injured during the time of McKenzie's silence he would have been estopped to deny his signature and liable to the bank. The language of Lord Watson, at page 109, seems very clear. He says:—"It would be a most unreasonable thing to permit a man who knew the bank were relying upon his forged signature to a bill, to lie by and not to divulge the fact until he saw that the position of the bank was altered for the worse. But it appears to me that it would be equally contrary to justice to hold him responsible for the bill because he did not tell the bank of the forgery at once, if he did actually give the information, and if when he did so, the bank was in no worse position than it was at the time when it was first within his power to give information."

The reasoning adopted by all of these Lords in coming to the conclusion they did in that case convinces one that in all such cases the imperative duty of promptly giving notice and repudiating a liability wrongly attempted to be placed upon a man does arise whenever he is informed of the fact; second, that failure to discharge it will not necessarily involve liability unless there is also proved the material prejudice which compliance with the duty might have prevented and, thirdly, that where both conditions co-exist, namely, the silence of the person whose duty it is to speak and that the material loss or prejudice of the bank or person who should have been notified might or would have been averted had the notice been promptly given, then the party neglecting his duty is estopped from denying his signature and his liability follows. The extent of that liability is determined by the Judicial Committee in *Ogilvie vs. West Australian Mortgage and Agency Corporation*, 1896, A.C., at page 270, as not limited to the actual amount of the loss sustained by the holder of the note, but to entitle him to have his plea of estoppel sustained to its full extent. This decision was held to be binding by our Supreme Court and the idea rejected that the amount recoverable should be limited to the actual loss sustained through the neglect of the party to give the bank notice of the forgery. That case is also most important as determining that the material loss or injury which the bank or holder of the note sued on, must show to be sus-

tained need not necessarily be shown to be the direct and necessary consequence of the defendant's act or silence. The Judicial Committee there determines, page 270, that, "If by keeping silence and allowing the forger to escape from the colony and the jurisdiction of the courts, the appellant had violated his duty to the bank," these circumstances would, in themselves have been sufficient to show prejudice entitling the bank to have their plea of estoppel sustained to its full extent. There, silence of the person whose duty it was to speak and the loss which might arise to the bank by reason of the forger's escape had no necessary relation or connection. The escape of the one party was not a necessary consequence of the silence of the other, and yet the Judicial Committee maintained the liability arising from estoppel. In the case, now under discussion, it was argued that there was no necessary relation or connection between the silence of Ewing & Co. and the paying out of the \$1,300 or \$1,400 on the 17th. And yet if they had broken their silence and discharged their duty the bank would not have lost the money. There is no distinction between losing the money in the one case and losing the opportunity of taking proceedings against the forger, either civilly or criminally, or both in the other. The loss in either case could hardly be said to be the direct and necessary result of the neglect of duty of the defendants. The most that can be said is that if the duty had been discharged the loss would or might have been prevented or overtaken.

This was not a case in which the defendants had merely learned of the existence of a note on which their signature had been placed without authority, and had cause to apprehend that some unknown person might possibly advance money without notice of the falsity of the signature.

The bank directly notified them that their note would fall due at its office on a certain date and requested them to provide for the same. This distinctly implied that the bank had an interest either of its own or on behalf of someone else, in the payment of the note and in its genuineness.

While there was no intimation that the bank had acquired or was proposing to acquire the note for value, Ewing & Co., as men of business, would know that the bank might have discounted the note and have the proceeds still at the customer's

credit, or that it might make advances upon it. They would know that an immediate repudiation would enable the bank to withhold payment of any portion of the proceeds not actually paid out, or of any sums not already advanced. The case was, however, considered to be not free from difficulty. Girouard, J., put it as follows:—"I cannot satisfy my mind that when a business man, familiar with banking operations, their meaning and scope, is informed, according to banking usages that his name is being used as maker of a note in a bank, evidently for cash credit, either already made or to be made, he is under no obligation to reply promptly, at least within a reasonable time, that it is used without his authority, or even that it is a forgery. It is argued that there is no business relation between him and the bank to create such a duty. I believe on the contrary, that business relation exists created without his knowledge it is true, by force of circumstances, but the introduction of his name, even if unwarranted or forged, brought him into contact with the bank and created business relationship which can end only by repudiation or paying in due time. In such a case every merchant or business man owes some duty to his fellow members of the commercial community. Is he not under obligation to cause no damage by his fault or negligence either by acts of commission or omission? I have always been under the impression that this elementary principle was held sound in every country, in England as well as everywhere else, I cannot conceive that the appellants ought not to be punished for the omission to do something which a fair and reasonable man, guided by those circumstances which regulate the conduct of commercial and even ordinary human affairs, would do. This punishment may, in some cases, and always in countries governed by the civil law, consists only in the payment of damages, but according to English law, an estoppel which prevents the wrongdoer from disputing his liability for the full amount of the claim, for he is presumed to have acquiesced in it. The rule may look harsh and arbitrary, but I must confess that it is highly moral and eminently healthful and salutary. The appellants at least have no excuse for complaining of the severity of this law. They knew that their duty was to give a prompt reply, namely, on the 16th August and I should say both by letter and by telegraph or telephone, and the evidence shows that if they had done so, the loss would have been only

partial. Not only were they in fault for not answering the bank, but also, and perhaps more so, for concealing what they knew of the forgery. Their lawyer advised them at the very first to repudiate their signature. They themselves, by telegraph and letter, informed the forger on the 16th August, that they would act at once. They did not do so for a few months; they kept silence with the bank, until a few days before the maturity of the note. Why they broke it at such a late hour when nothing could be done by the bank to protect its position, it is impossible to imagine, if the contention of the appellants be correct, that there was no duty for them to speak. They had some reason to expect that the forger would be able to make the loss good; the Thomas Phosphate Company might materialize and come to his assistance, and consequently they limited their exertions to save him, if possible; but, as is usual in similar cases, they were doomed to disappointment and became the victims of their misplaced confidence and exaggerated kindness. They must suffer for the consequences of their conduct, which amounts to fraud in law, for their inaction or action—either word meets the case—is a fraud in law. With the judges of the two courts below, the majority of this court has come to the conclusion that they are estopped from setting up the forgery of their signature, and that they must pay the full amount of the note. They knew that they had made no such note, that they had given no such authority for the signature. They could at once repudiate it, and they did so in their telegram to Mr. Wallace. No further information was necessary for that purpose.

While the bank manager placed the proceeds to the credit of the customer without enquiry, and took no precaution against its being paid out before he could hear from the defendants, the bank did act upon the defendants' silence in the sense that it did what, it should properly be inferred it would not have done had the defendants at once denied the signature; it allowed the balance of the proceeds to be withdrawn.

The decision in *McKenzie vs. British Linen Co.*, 6 A.C. 82, proceeded distinctly upon the view that all the mischief was done before either bill could have been repudiated. But I think that sufficient appears to indicate that the learned lords would have been of the opposite opinion if the proceeds had remained at the customer's credit sufficiently long to have en-

abled the repudiation to be communicated before their withdrawal. Lord Selbourne, L.C., said (page 92): "There is no principle on which the appellants' mere silence for a fortnight, during which the position of the respondents was in no way altered or prejudiced, can be held to be an admission or adoption of liability, or to estop him from now denying it."

Lord Blackburn said (page 101): "Certainly I think that his not telling the bank on the 15th July nor till the 29th July that it was a forgery, and so letting them continue in the belief that it was genuine, if he had not induced it, could not so preclude him if, as I think was clearly the fact, here, the bank neither gave fresh credit in the interval nor lost any remedy which, if the information had been given earlier, they might have made available."

"And Lord Watson said (page 109): "It would be a most unreasonable thing to permit a man who knew the bank were relying upon his forged signature to a bill to lie by until he saw the position of the bank was altered for the worse."

In the interests of business morality, I think that the conclusion of the Court of Appeal upon this point should be supported. It is well warranted by the doctrines laid down in *Freeman vs. Cook*, 2 Ex. 654. It does not appear to me to be opposed to any previous judicial decision, or even to judicial opinion directly applicable."

As Ewing & Co. had expressly abstained from questioning the conclusion that the estoppel, if existing, must apply to the full amount of the note, Girouard, J., did not pass on that point.

The ground of *ratification* suggested by the trial judge, Meredith, J., although his judgment did not rest on it, was rejected in appeal, the judges there holding that the case came precisely within the holding in *Merchants' Bank of Canada vs. Lucas*,<sup>1</sup> viz., that the act of forgery in the transaction not being an act professing to have been done for or under the authority of the defendants, was *incapable of ratification*.

As pointed out at the beginning of this article, the decision in the Ewing case is important. It goes further than any of the English cases. And it certainly seems to be consistent with the spirit of the English decisions.

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<sup>1</sup> 15 A.R. 573. Affirmed in Supreme Court, 18 S.C.R. 704.



## SOME MUNICIPAL ENTERPRISES

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BY MARTIN J. BERG

OF all the changes which the century just ended has brought to civilized mankind, there is scarcely one of greater importance than the mighty growth of cities. With startling rapidity the rural district has become a town; the town a small city; the small city a large one; and the large city a metropolis. Insignificant colonial boroughs have been transformed into vast metropolitan municipalities; simple and unorganized council government into the complicated administrative machinery of the great city of to-day, and at each turn and stage of the growth new municipal functions have developed, new duties taught, until nations have become not only accustomed to, but believers in, and advocates of, an amount of municipal intervention unimagined thirty years ago.

This being a fact, it is not strange, that questions associated with municipal affairs should assume a position of growing interest and importance. It was not to be expected that the petty housekeeping of a few small communities which in the aggregate composed but an insignificant part of the entire country, could become a matter of intense public interest; but when we find that in the leading nations of the world from 33½ to 75 per cent. of the total population dwell in cities, the question, "What are the positive tasks and public services to which a municipality may wisely apply itself?" becomes a topic of all absorbing interest.

In considering some of the present day facts concerning municipal activities, we will devote the greater attention to those of European cities. We do this for two reasons; first, because municipal ownership has had a longer trial there; and secondly, because there the functions of the municipality have reached their highest stage of development and expansion.

The most important of the enterprises undertaken by the municipalities is the supply of water. In England and Wales

in 1902, the capital invested by the municipalities in water-works was \$285,000,000, out of a total of \$600,000,000 for all such undertakings. In Germany municipal water-works are even more firmly installed, as practically all German cities, with a few unimportant exceptions, now own and operate their water-works. In the United States in the year 1835, Philadelphia was the only important American city with a municipal water supply; whilst in 1902, out of 1,475 water supply systems reported for cities of 3,000 and over, 51 per cent. were owned by municipalities; while, of the cities with a population of over 30,000, 88 had municipal water-works as against 47 private works.

Germany has gone more extensively into municipally owned gas-works than any other nation, the governments of 51 out of the 54 cities of over 50,000 inhabitants having undertaken this business. England has the greater individual gas-works of the two nations, but as yet numerically she is behind Germany, as her private gas-works nearly double the number of her municipal gas-works. In the United States there are but 20 cities with municipal gas-works as compared with 981 private plants. France also has left the gas supply largely in private hands.

Electric lighting plants in the United States have remained very largely under private ownership. In 1898 there were 2,578 private as against 468 municipal plants. England in 1900 had 130 municipal works as compared with 68 in private hands. On the continent of Europe in Teutonic countries, electric light plants are mostly municipal; Germany, however, having a number of important exceptions to this rule. In France, Italy, and Belgium, municipal electric plants are almost unknown.

Municipal baths are very common in England, the United States, and Germany. They are met with somewhat less frequently in France, while in some of the Latin countries they seem to be missing entirely. Public wash-houses, as yet are a development peculiar to Great Britain. By municipal wash-houses we really mean public laundries. There are hundreds of these scattered all over Great Britain and they certainly are of inestimable service to the poorer classes of England. To the average tenement-house dweller of London, Liverpool, or any

other great city, the problem of what to do with the week's washing is by no means a small one. Hot water is expensive, dry and clean rooms wherein to hang the clothes when washed are not to be had, perhaps even the most primitive tools are beyond the reach of many of these toilers, but with the municipal wash-houses on every hand the problem is solved. The house-wife brings her bundle of soiled clothes to one of these wash-houses, here she finds at her disposal all the machinery and appliances of a modern laundry, instead of spending hours over a tub in the cramped living quarters of her tenement, she is privileged "to wash her clothes by means of hot water and steam, rinse them in a flood of pure, running water, dry them in a hydro-extractor, and complete the process by hanging them for a few minutes in a steam-heated room, where they are exposed to highly heated air in motion." The clothing is then taken to the mangling and ironing room, where by the aid of the best appliances, the task is speedily completed.

In no country has municipal ownership been more extensively undertaken than in Great Britain, and no other cities can show such remarkable progress in the ownership of public utilities as the English cities. Glasgow, Liverpool, and Manchester are the show places of municipal ownership. London is the world's greatest landlord. Liverpool one of its most opulent property holders, while Glasgow, as a distinct and complete municipal organism, is easily the first community in the world. In 1875 the capital invested in municipal undertakings in Great Britain was \$465,000,000, while in 1900 there was \$1,500,000,000 invested. Briefly summarized and classified, there are now in Great Britain 931 municipalities owning water-works; 142 street railway systems; 256 gas-plants; 181 electricity; 300 cities and towns own their markets; 170 maintain baths and wash-houses; while 43 own piers, docks, and quays.

The "housing question" or the building of municipal houses is one of the newer developments among municipal enterprises. The movement, it should be said, has been confined chiefly to Great Britain. It is true that Hamburg a few years ago, in order to provide for her shipping interests, removed bodily 30,000 people, and that other continental cities have performed similar operations. The movement thus far never-

theless is peculiarly an English one. At the present time five English municipalities have regular works departments for the execution of various undertakings of this nature, whilst other cities carry out constructional works without a separate department. Municipal housing operations upon a large scale in Great Britain dates from 1890, when the act known as the "Great Housing Act" was passed. Under this act London has already erected tenements, lodging houses, and cottages which shelter 25,000 persons, and plans have been adopted, funds raised, and work is in progress on buildings which, when completed, will provide for 75,000 more. These improvements represent an expenditure in excess of \$25,000,000. Since 1875 London, alone, has instituted no less than thirty of these betterment or clearance schemes, twenty-three of which are now actually completed, some of them involving areas of fifteen acres.

Perhaps one of the most famous of all such schemes was the one undertaken by Birmingham some years ago. In order to carry out important reforms and do away with a great unsanitary district, the council bought 90 acres in the very centre of the city—an area traversed by small narrow streets and covered with 3,744 buildings and housing a population of 16,596. The old houses and slums were demolished, the crooked and narrow streets obliterated and in their stead we find the best business premises and the great Corporation street of to-day. The gross cost of this undertaking was about \$8,500,000. Liverpool, Glasgow, Edinburgh, Dublin, as well as numerous other cities in Great Britain, have carried out similar operations.

One more feature in connection with the housing problem should be mentioned, namely, the building of entire villages or suburbs by the municipalities. There are already a number of these built or in process of building. For instance, the London county council is to-day engaged in creating such a town which, when completed, will have a population of 40,000. It is situated six miles from London proper. In order to prepare for this village the London council purchased a tract of 225 acres. It is now dotting this area with 4,750 cottages, and is reserving a space in the centre of the town for stores, public buildings, and a splendid library donated by private parties. For the

completion of this huge enterprise the sum of \$7,600,000 has been set aside.

English tramways, electric light plants, gas-works, etc., afford opportunity for almost unlimited investigation and discussion. Perhaps a very brief and imperfect summary of the operations of two or three of these enterprises may serve to give us some conception as to what the British municipalities are doing along this line. London to-day has one of the most antiquated and inadequate systems of transportation of any large city in the world. Her street car lines have been operated under private management, and are so to-day to a considerable extent. Public ownership, however, is being substituted as fast as the expiration of franchises will permit. Some of the results of public ownership thus far are as follows: Last year after paying all expenses and allowing for the sinking fund, there remained a profit of about \$150,000, of which \$100,000 was applied to the reduction of taxes; a general reduction of fares was made; workmen's cars were run at a rate not exceeding 2 cents per trip; the carmen's working day was reduced from 12 and 14 hours to 10, his wages increased, he was given one day of rest in seven, and provided with uniform free of charge.

The tangible result of the public ownership of gas-works in Birmingham is best shown by the fact that since their purchase the sum of \$5,000,000 has been turned into the city treasury from gas revenues, with an extra \$3,500,000 paid to the sinking fund, and the further fact that during these years the price paid for gas has averaged one-third less than that charged by the private companies. The reduction in the expense of city lighting amounts to \$1,250,000.

At the present time Liverpool's investment in her tramways and electrical plants alone amount to about \$20,000,000. As has already been indicated, Liverpool leads, perhaps, all other cities in the number of enterprises she has municipalized. Her activities along this line cannot be better stated than by simply saying, that "One may be born in a Liverpool municipal hospital, be educated and trained in its schools and colleges, may earn a living by working for it in a score of capacities, he may retire on a municipal pension, may die and be cremated at public expense, or his bones may rest in a municipal burying ground."

In conclusion permit me to briefly call attention to one or two facts concerning municipal ownership in Chicago. The desire for municipal ownership of certain enterprises has of late rapidly been crystallizing itself into something more tangible than a mere wish. Chicagoans have on several occasions expressed themselves in favour of the policy, that in public ownership lies the sole, fair, just, and reasonable method of handling all these utilities, for the operation of which the practically exclusive use of public property is required. In this policy a large percentage of the people fully believe, because they have not only studied conditions elsewhere, but for many years they have witnessed two splendid examples of municipal ownership at home. Chicago owns its water-works. Its mains have an aggregate length of nearly 1,900 miles, and extend into the remotest part of the city's territory. The service is in every way satisfactory, except as to the purity of the water, and this defect they are now remedying. The rates are exceedingly moderate. In spite of all charges of politics and graft, the water-works department of this city is so successfully managed that the revenues exceed the cost of maintenance by about \$2,000,000 per annum. The municipal electric lighting plants furnish another lesson in municipal ownership. The city began to manufacture its own electric light for lighting its streets as early as 1887. In that year a power-house was erected, and 105 arc lights placed in operation, at a total expenditure of \$39,976.25. At the end of the first ten years the city operated 1,254 arc lights, and had expended for construction and operation during these ten years a total of \$1,693,222. If the same number of lights had been rented the city would have had to pay the sum of \$1,269,445 without owning anything. Beginning with 1897 the number of lights was greatly increased, and to-day there are operated nearly 5,000 city arc lights, at an average cost per lamp per year of \$53.51 (1902), while the city still rents about 600 lights from private companies at an average cost of \$103 per lamp. In other words, for practically the same amount that it would have cost the city to light the streets by means of rented arc lights, not only has the city operated its own lights, but it has acquired five modern lighting plants, representing an investment of more than \$1,300,000.

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## LIABILITY OF DEPOSIT COMPANIES.

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By E. FABRE SURVEYER, L.L.M., B.C.L., of the Montreal Bar.

Amongst the many inconveniences of wealth stands pre-eminently the anxiety of the owner about the safe-keeping of his property, and his fear of becoming a target to unscrupulous persons, either among outsiders or from his own surroundings.

To alleviate this mental suffering, human ingenuity has invented several remedies, amongst which are the foundation of companies of insurance against burglary, as well as against fraud by employees, and the establishment of safe-deposit vaults, either owned by banks and trust companies, or operated by institutions established for that purpose. These companies are usually equipped with the most impregnable apparatuses, which render their deposit vaults almost unassailable.

“The most complete examples of safe and strong-room arrangements are afforded by the public safes or safe deposits erected in most of the great cities of America and in London. The premises of the National Safe Deposit Company in London consist of a large isolated building in Queen Victoria Street. The building, which is fire-proof, covers and surrounds the great safe vault or citadel, which is sunk in the ground to a depth of 45 feet. The vault itself, founded on a bed of concrete 20 feet in thickness, has walls 3 feet thick of hard blue brick, laid in cement, with an external lining of fire-brick, and is lined internally with cast-iron plates  $4\frac{1}{2}$  inches thick chilled on one side, the plates having embedded in them a network of strong interlaced wrought-iron bars. The vault is divided into four tiers or stories with eight separate compartments in each, which, after business hours, are closed with doors raised and lowered by hydraulic power. These doors, which each weigh four tons, are built up, twelve inches thick, of combinations of hard and tough metal to resist fracture and drilling, and when they are

raised for business purposes, the entrance to each compartment is protected by a massive wrought-iron grill. Within the thirty-two compartments there is space for about 20,000 safes of various sizes, which are let to owners of valuables, each renter having sole control of the safe hired by him. Additional security is obtained by the patrol of armed watchmen, and generally it may be said that in the institution precautions have been carried almost to the pitch of perfection, if indeed they have not been pushed to needless excess."—*Encyclopædia Britannica*, 9th edition.

In spite of these very complete precautions, losses may still be incurred through destruction or criminal removal of the valuables so entrusted.

It may be interesting to examine the various cases in which such losses may occur, as, even in the case of deposits for consideration, or bailments for hire, the loss of the owner, the safe deposit company or the insurance company, will be, in almost every case, altogether out of proportion with the premium paid for the safe keeping of the valuables.

In English legal parlance, the contract entered into between the customer depositing valuables and the bank or deposit company may be, according to circumstances, either a bailment or a deposit.

The word *bailment* comes from the old French verb *bailler*, which means to deliver a thing to some one with a specific end. It has been defined by Stephen: "The delivery of goods for some purpose, upon the contract, express or implied, that after the purpose has been fulfilled they shall be delivered to the bailor, or otherwise dealt with according to his directions, or kept till he reclaims them".

The customer is termed "bailor," and the party receiving the deposit "bailee."

When the bailment is undertaken free of charge, it takes the name of deposit.

Pothier thus defines deposit:—

"A contract whereby one of the contracting parties gives a thing to keep to the other party, who takes charge of it gratuitously, and binds himself to return it when requested."

The Anglo-American notion of deposit is identical.

According to Judge Story (*Bailments*, No. 41) "deposit" is a bailment of goods to be kept by the bailee without reward,



"and delivered according to the subject or purpose of the "original trust".

The Codes of Georgia (Art. 2103) and of Louisiana (Art. 2928) give similar definitions of the contract.

In Scotland also, deposit is essentially gratuitous (Green's Encyclopædia of Scots' Law, Vol. 9, p. 280.).

These definitions are more logical than the texts of the Code Napoleon, which after having defined deposit; "An act "by which a person receives the thing of another person, with "the obligation to keep it and return it in kind", (Art. 1915) and added later (Art. 1917) that it is a contract which is essentially gratuitous, foresee also the case where the depositary or bailee "has stipulated a salary for looking after the deposit" (Art. 1928, par. 2). In this case the contract would cease to be a deposit properly so called, and would constitute what the Roman law called *locatio custodia*, a contract of hire and custody.

The Belgian Code is similar to the Code Napoleon.

Under the Codes of Italy, Spain and Holland the deposit is gratuitous unless the contrary is agreed upon.

The laws of Portugal declare this contract naturally though not essentially gratuitous.

The new Code of Germany and the Swiss Code go further. In these countries, not only may a salary be stipulated, but it may be presumed according to the circumstances.

The continental notion of deposit is hardly satisfactory. It is much preferable to recognize, as does the Anglo-American doctrine, two distinct contracts, one gratuitous and the other salaried.

The authors of the Civil Code of Lower Canada have recognized that fact and wisely preferred the strict rules of the old French law to the illogical concessions of the Code Napoleon. Unfortunately, they have not found in the French language a proper equivalent of the word "bailment," and the necessity of improperly using the word "deposit" has sometimes created confusion.

The consideration or absence of consideration is the only essential difference between a bailment and a deposit. We will see later that this is sufficient to modify considerably the responsibility of the party receiving goods for safe-keeping.

Therefore, it is most important to ascertain whether the contract was made for or without consideration. In the case of trust or safe-deposit companies, the question presents no difficulty, as these institutions always make a charge for the safe-keeping of the valuables received by them. Banks, on the contrary, oftentimes receive from their customers valuables for safe-keeping without making any extra charge therefor. They may do so merely to oblige their customers.

A short review of the authors and decisions on this point will convince the reader that seldom, if ever, will a bank escape the responsibility of a bailee, by pretending that the deposit was made as a pure act of kindness.

In *Newhall v. Paige*, 10 Gray (Mass.) 368, the following rule was laid down:—

“The benefit such as will distinguish *locatum* from a “*depositum* is not necessarily certain; it may be contingent, “uncertain and indirect, as in other cases of contracts. The “nature, amount and adequacy of the consideration are immaterial. It is sufficient if the consideration be of some “value, though slight, or of a nature which may inure to the “benefit of the party making the promise.”

In *Baltimore Third National Bank v. Boyd* (44 Md. 47, 22 Am. Rep. 35) it was held that “the deposit of bonds as “collateral security for the existing debts of a customer, and “for future loans and discounts, is not a gratuitous bailment”.

In another American case (*Gray v. Merriam*, 148, Ill. 179; 35 N.E., 810; 39 Am. St. Rep. 172; 32 L.R.A. 769) it was held that “where securities are deposited with a bank “accustomed to receive such deposits, the bailee is liable for “any such loss occurring through the mere want of degree of “care, which good business men should exercise in keeping “property of such value.”

I quote the following from Green's Encyclopædia of Scots' Law (Vol. 4, p. 201):—

“It is the custom of bankers to receive and keep for the accommodation of their customers, boxes of plate and jewels, wills, deeds and securities, and as no charge is made for the keeping of these things, they are gratuitous deposits. The bankers, therefore, are only bound to take ordinary care of them, and if they are stolen by a clerk or servant employed

about the bank, the bankers are not responsible, unless they have knowingly hired, or kept in their service a dishonest servant." (Addison, 6th. ed. p. 406.)

"So in the leading case of *Giblin v. McMullen*, 1868 (L.R. 2 P.C. 317) where a customer left in the custody of a bank debentures, which were abstracted from a strong-room and made away with by the cashier, it was held that the bank, as a gratuitous bailee was not bound to exercise more than ordinary care of the deposits intrusted to it.

"The negligence, for which alone they could be made liable, would have been the want of that ordinary diligence which men of common prudence generally exercise about their own affairs". (Per. Ld. Chelmsford in *Giblin v. McMullen*, *supra*.) But if the deposit is in the way of the bank's ordinary business, or if the bank receives any consideration by way of commission or otherwise, or has a lien over the deposit for a general balance, the character of the contract is changed, and the bank becomes liable for ordinary negligence (in re *United Service Co.*, *Johnston's claim*, 1871, L. R. 6 Ch. 212). And it has been suggested, that, looking to the modern, and almost universal practice of bankers, to take charge of valuables for their customers gratuitously, the doctrine of their liability requires modification. Bankers give facilities to customers, which they would not extend to others without a charge, and it may reasonably be said that this is done so much in their own interests as to make it part of their ordinary business, and so to extend their liability. "Can it fairly be said that the position of a banker, taking charge of securities for a customer, is identical with that of a man intrusting his gold watch to a friend, or locking up his deed box in a neighbour's house while he goes out of town?" "Unless the position is identical the banker can only be described as a gratuitous bailee in a strained and somewhat unnatural sense". (Beven on *Negligence*, 1563).

The same view is taken in France:—"It must be held that if the Bank of France or any other banking institution receives for safe-keeping securities or money, the contract which intervenes between the parties and which receives, in practice, the name of deposit, is not a contract of deposit in the legal sense of the word, but a hire of services, for, in that operation, the

so-called depositary always receives a salary." (Guillouard, *Deposit*, No. 16)

Apart from the question of salary or consideration, the essential features of the contracts of deposit or bailment are identical. These features are the following:—

(a) The object of the contract must have been delivered to the depositary or bailee.

(b) It must be returned *in specie*.

(c) It must be a moveable.

A deposit of real estate is not a deposit properly so called, as erroneously surmised by some American commentators. It constitutes a special contract, either of antichresis (C.N., 2071, 2072; C.C., 1927) or sequestration (C.N., 1915, 1956, 1958; C.C. 1794, 1818, 1820). The latter contract is not essentially gratuitous, and the obligations of the sequestrator are assimilated to those of the depositary (C.N., 1956 and C.C. 1819) if the contract is gratuitous, and to those of the lessee if a salary is expected. (C.C. 1822).

The party so entrusted with valuables, may:—

(a) have received securities to administer them, receive dividends thereon and invest the amount thereof, or return it to the owner, less commission.

(b) have received them for safe-keeping only. In this case the owner may have retained a certain control over them, for instance, by retaining one of the two or several keys which must be used simultaneously to open the safe or box containing the same.

In the latter case only, the partial control retained by the proprietor may, in some cases, lessen or even nullify the responsibility of the depositary or bailee. It is better, therefore, to discuss the ordinary occurrences before coming to that exceptional case.

The deposit with a bank or a safe-deposit company is seldom, if ever, gratuitous, and partakes, therefore, of the nature of a bailment for hire. The responsibility of banks, however, may be that of a depositary, or that of a bailee or lessee, according to circumstances. Although the former instance is the less frequent, it may be useful to review briefly the obligations of the depositary, the details of which will appear clearly enough when we deal with those of the bailee.

Under the Civil Code of Lower Canada, the depositary must:

(a) Apply in the keeping of the thing deposited, the care of a prudent administrator. (C.C. 1802).

(b) Refrain from using the thing without permission of the depositor. (C.C. 1803).

(c) Restore the identical thing entrusted to him, or such portion of it as remains at the time of the restoration, or if the thing has been taken from him by irresistible force and something given in exchange, deliver the thing so given in exchange, together with any profits received by him from the thing deposited, but not the interest on moneys deposited, except from the day when the return should be made. (C.C. 1804, 1805, 1807).

(d) Refrain from obliging the depositor to prove his title to the thing deposited (C.C. 1808).

Now, as regards the obligation to return the thing deposited, the general laws regarding the obligations, are contained in the following articles of the Civil Code:

"1071. The debtor is liable to pay damages in all cases in which he fails to establish that the inexecution of the obligation proceeds from a cause which cannot be imputed to him, although there be no bad faith on his part."

"1072. The debtor is not liable to pay damages when the inexecution of the obligation is caused by a fortuitous event or by irresistible force, without any fault on his part, unless he had obliged himself thereunto by the special terms of the contract."

"1150. The debtor of a certain specific thing is discharged by the delivery of the thing in the condition in which it is at the time of delivery, provided that the deterioration in the thing has not been caused by any act or fault for which he is responsible, and that previously to the deterioration, he was not in default."

"1200. When the certain specific thing which is the object of an obligation, perishes, or the delivery of it becomes, from any other cause, impossible, without any act or fault of the debtor, and before he is in default, the obligation is extinguished. It is also extinguished although the debtor be in default, if the thing would equally have perished in the

possession of the creditor, or unless in either of the above-mentioned cases, the debtor has expressly bound himself for fortuitous events.

"The debtor must prove the fortuitous event which he alleges."

These rules are extended to bailments by Art. 1670 C.C.

Now let us see what is that fortuitous event which operates the liberation of the bailee.

Fortuitous event has been defined by the Civil Code (Art. 17, Sec. 24), "An event which is unforeseen and caused by superior force, which it was impossible to resist."

Fuzier-Herman gives the following definition: "Fortuitous event means any event occasioned by a superior force, which one could not foresee, or which, even if foreseen, one could not resist."

These two definitions are sufficient in practice. They tend, however, to establish a confusion between fortuitous events and irresistible force by making the latter a mere species of the former.

An old author, Denisart, gives the following definition, which is more explicit:

"The words 'fortuitous event' are properly applied to events which have no other cause but hazard, or rather the unknown decrees of Providence. Such are conflagrations caused by heavenly fire, floods of rivers, their change of bed, alluvia, the meeting of a stray beast, unforeseen sickness or death, earthquakes, most of the contagious diseases, the actions of insane persons, or of children who have not attained the age of reason."

He then proceeds to establish the following distinction between fortuitous event and *vis major* (irresistible force).

"In a more extended sense some authors comprise, under the name of fortuitous events, what is caused by irresistible force, for example, the effect of a new law, such as the prohibition to export wheat, the acts of the prince, the invasions of the enemy, the ravages of war, and other similar accidents, which are above ordinary foresight, without being either torts nor precisely the effects of what we call hazard.

These various accidents differ from those which are properly called 'fortuitous events', inasmuch as the latter are natural, whilst the others are caused by the act of men. But

there is something common to both, they are all independent of the will of those to whom they happen, and generally no recourse can be exercised for the damage resulting therefrom."

This is in accordance with the definition of irresistible force given by Judge Story:—

"By *irresistible force* is meant" says Story, "such an interposition of *human agency* as is, from its nature and power, absolutely uncontrollable."

The last words of Denisart show, that from a practical standpoint, the distinction between fortuitous event and irresistible force is of little, if any, import. We may, therefore, proceed to examine the principal events which may liberate the bailee when the deposit has been destroyed without examining, in each case, whether such happenings come properly under the term of fortuitous events or irresistible force.

I have used, purposely, the words "when the deposit has been destroyed". If the event invoked by the bailee or depository to liberate himself, had not annihilated the deposit, but had simply rendered its preservation and safe-keeping more onerous, it had not the effect of liberating the bailee. In *Gregory v. The Canada Improvement Company*, et al, 5 Themis, p. 10, it was held that the act of the Prince only liberates the debtor when it absolutely prevents the execution of the obligation, but not when it renders the execution thereof more onerous and more difficult.

It must also be noted that in all cases where the bailee pleads irresistible force, the bailor can, in answer, say that the effects of such irresistible force might have been avoided had proper precautions been taken. There is, however, some discrepancy in the American authorities upon that point, but the principle seems clear, and the later cases support it. *Highman v. Camody* (Ala., 1896). 20 S.C. Rep. 482. *Conduit v. G.T.R. Co.* 54 N.Y. 505.

Among the principal facts constituting fortuitous events or irresistible force, are the following:—

(a) The act of God, such as cyclones, earthquakes, lightning, hail, frost, tempests and storms, insects, disease, death, etc.

(b) The act of the superior authority, called by French writers, "*le fait du prince*", the act of authority emanating from a sovereign, legitimate or usurper.

(c) The acts of a collectivity, such as wars, revolutions, riots, invasions, etc.

(d) The acts of private parties, such as robbery, burglary, theft, etc.

(e) Process of law.

(a) *Act of God.* To constitute a cause of liberation of the bailee, the act of God causing the destruction of the deposit, must be an extraordinary event, not one of those events, which, however irregular, are not such as may be unexpected, such as flood, frosts etc. (*Sawyer & Ives*, Off. Rep., 4 Q. B., 374; *Trestler & Dawson*, 5 L.N., 144.). The same view was taken in Ontario: *Grant v. Armour*, 25 O.R., 7, and authorities there cited.

As in a great many of the points which will be discussed later, there seems to be some discrepancy between English and French Jurists as to what circumstances will constitute *vis major*. *C. P. Ry. Co., & Chalifoux*, 22 Can. Sup. Court Rep. 721.

*Fire*, other than by lightning, is not of itself a case of irresistible force. It is not sufficient for the bailee to prove that the fire took place; he must also prove that in the particular circumstances where the fact occurred, no fault was imputable to him and that he was really the victim of a fortuitous event. This principle was applied in two Quebec cases, where the Montreal Union Abbatoir Company was sued for the value of meat destroyed by fire in its premises. Cattle had been sent to be slaughtered and the meat was to be left in the company's coolers for twenty-four hours after the slaughter and then restored to the owners on demand. The fire took place within twenty-four hours of the slaughter. On the first action (Off. Rep. 16, Sup. Ct. 227) the company was condemned to pay the loss. On the second action, the proof was slightly different and the Court of Appeals, by three judges against two, reversed the judgment of the Superior Court, and held that the company was not bound to show the origin of the fire, and had taken the care of a prudent administrator. (Off. Rep. 10, Q.B. 289.)

The same principle was held in England in the leading case of *Forward v. Pettard*, 1 T. R. 27, and in American cases, such as *Gilmore v. Carman*, 40 Am. Dec., 96.



The fact of having moved the deposit to other premises may become, by itself, an act of negligence which prevents the bailee from exonerating himself. *Little v. Doubleday*, 7 Q.B. Div., 510.

The only difference between the American doctrine, as laid down in these cases, and the European and Canadian doctrines, is that in case of fire, it is, in our view, for the bailee to show that he has been guilty of no negligence, while some American cases impose upon the bailor the obligation to show negligence on the part of the bailee.

(b) *The acts of the prince*, such as confiscation, cancellation by authority, etc., are assimilated in their effects, to the act of God. A question might arise, however, if the edict proclaiming confiscation, did not by its terms, affect the property belonging to foreigners, or non-residents, would the bailee be bound, in that case, to urge the exemption on behalf of the bailor, or would he have fulfilled his obligation by notifying him of the edict and urging him to present his objections himself?

I am of opinion that he should do both. Even an unsalaried depositary has an action to recover the expenses incurred in the preservation and care of the deposit. (C.C. 1812). Instances may occur, however, where, the right of the bailor being doubtful, judgment will have to be exercised before the expense is incurred.

(c) *The acts of a collectivity* will also constitute irresistible force. "Comprehended within this term," says the American and English Encyclopædia of Law. 2nd Ed. Vol. 3, p. 749. "are losses from such public disasters, as the inroads of a hostile army, or the confiscation or destruction by military authority, etc." In such cases, the bailee must be deprived of the goods by force; he is not exempt from liability if he surrenders them. *James v. Greenwood*, 20 La. An. 297.

Losses occasioned by robbery on the highway or by the depredations of mobs, riots, insurgents, are not occasioned by the act of God or *vis major*. (Story, 9th. Ed., No. 526.)

In France and in Belgium, the doctrine is different, and even strikes have been held to constitute *vis major* when they have the effect of not only causing a momentary inconvenience, but an invincible difficulty to the execution of the engagement. (Daloz, 1895, part 2, p. 214.)

(d) *Acts of private parties.* Some distinction appears to have been made in the United States between the exemption resulting from theft and that resulting from robbery and burglary, the latter being assimilated to irresistible force. The proper doctrine seems to be that already laid down as regards fire and approved by Story, which obliges the depositary or bailee, who has been the victim of robbery, to prove, when asked to return the thing stolen from him, that he has been guilty of no negligence in the care of the deposit: *Roach v. Fraser*, 7 L.C.R., 472.

In such cases the position of the bailee would be greatly improved had the bailor retained, as suggested above, some control over the deposit, for instance, if he had kept one of the keys, or the only key of the safe, as in the case with the National Safe Deposit Company of London. In such cases the bailee would liberate himself by proving that the loss occurred through the theft of the key from the depositor, that the vaults were safe and up-to-date, and if, that the depositary took proper care in the selection of the watchmen, if any. If the safe opened with different keys, one of which was kept by the depositor, the circumstances of fact would alter the legal aspect of the question to such an extent as to render a general answer impossible.

This, of course, applies to the acts of outsiders, but the question becomes much more complicated, when the act is committed by an employee of the bailee.

In cases of gratuitous deposits, the weight of authority exonerates the banker who has been guilty of no negligence in the selection of his employees. *Foster v. Essex Bank*, 17 Mass., 479, and *Giblin v. McMullen*, 3 English Ruling Cases, 620, are still recognized, both in England and in the United States, as the standard decisions upon this point. But we have seen, in a previous reference to the *Giblin* case, that there is among the English text-writers, a desire to distinguish the principle laid down there, if not to disprove it.

On the other hand, what has been termed "a more liberal view" was taken in a few American cases where the bank was held liable for the theft of bonds by its cashier and assistant cashier, who had free access to the vaults, and who, to the knowledge of the bank, had been speculating in stocks, with no resources other than his salary.

It seems to me impossible to apply the doctrine of *Giblin v. McMullen* to cases of bailment arising under the French law or under the Civil Code of the Province of Quebec. Under that law the master is responsible for all tortious acts of his employee connected with the execution of his duties, and having been occasioned thereby. (Fuzier-Herman, annotated Code, 1384, Nos. 156 *et seq.*). See also Buckley's "Law of Companies", p. 530.

In the case of *Ward v. The Montreal Cold Storage and Freezing Company*, still pending, Ward was seeking to have the claim of the Merchants' Bank of Halifax, based upon a note, set aside on the ground that the note was given to secure a claim based upon warehouse receipts, duly signed by the officers of the Cold Storage Company while the goods mentioned in the warehouse receipts were not in existence. The Court held that the bank's claim was, nevertheless, valid, as the criminal act of the directors of the company was done in the exercise of their ordinary functions.

(e) *Process of law.* It must be held that if the object of the deposit is removed from the bailee by a properly obtained order of a duly constituted tribunal, the bailee is thereby freed from responsibility. But this excuse will not be accepted, unless it is shown that the bailee took every possible precaution to prevent the rendering of such judgment without the bailor's knowledge. The first of these precautions is, of course, to notify the bailor of such attempt. But in cases where such warning becomes impossible or ineffective, the bailee must, by himself, do everything in his power to prevent the removal of the deposit, bearing in mind that the bailor is bound to indemnify him for all his legitimate expenses. He has a right to revendicate the deposit if removed by a party having no right therein. (C. P. 946) and to oppose the sale of the deposit for the debt of anyone but the real owner. (C. P. 645.) Again, if the deposit is seized for a debt of the bailor, he must refuse to allow it to be sold under a writ of execution, and force the seizing party to proceed by way of an attachment in his hands. (C. P. 677.)

The American doctrine is fairly stated in the following *dictum* in the case of *Bliven v. Hudson River R. Co.*, 35 Barb. (N.Y.) 188:—"It is no doubt true as a general rule, that a bailee of property cannot set up against his bailor that a third

person has a better title to the property, and compel the latter to litigate the question of ownership. But it is also true that if the goods are taken from the bailee by the authority of the law, exercised through regular and valid proceedings, it will be a defence to an action by the bailor. The bailee must assure himself, and show the court, that the proceedings are regular and valid, but he is not bound to litigate for his bailor or to show that the judgment or decision of the tribunal issuing the process or seizing the goods was correct in law or in fact."

It may happen in any of the foregoing cases that the bailee, who has been deprived of the deposit by some cause exempting him from liability, has received something in exchange. In this case, he is clearly obliged to surrender the thing so given in exchange (C.C. 1803). Thus, if upon the edict of the sovereign authorities, gold deposited has been confiscated and bank notes given in exchange therefor, he is obliged to give back the bank notes to the bailor. Again, if he has received insurance money, either in case of fire, burglary or theft by employees, he is clearly, in any event, obliged to deliver to the bailor the insurance money. (Paine, *Bailments*, p. 96.). See also C.C., 1201.

The question then comes up whether the bailee is bound to effect insurance upon the goods received. In France, in cases of deposit, it has been said that the depositary may be so bound, according to circumstances of locality or profession.

In the case of a bailee by profession and for a salary, such as a trust or deposit company, the obligation of a bailee to have the object of the bailment insured, admits of no doubt. The question would come up, therefore, to what amount must the insurance be effected? The answer would largely depend upon the salary paid, for the bailee cannot be compelled to pay larger premiums than the amount received for his work.

In a few words the principles relating to bailment may be summarized as follows:—

(1) When the object of the deposit cannot be returned, the depositary is bound to allege and prove that he has been deprived thereof by fortuitous event or irresistible force.

(2) If he has been deprived by theft or fire (other than by lightning) he must further prove that he has taken all possible precautions against such happenings.

(3) Under the laws of the Province of Quebec, the depositary, as a rule, is responsible for thefts committed by his employees.

(4) If the depositary exonerates himself from responsibility of the loss of the deposit, he must still return the amount of insurance, or other consideration given to him, in lieu of the thing deposited.

(5) The obligations of the depositary are increased if he has received the deposit for a consideration, direct or indirect.

Montreal, July, 1904.

## INTEREST ON INDIVIDUAL DEPOSITS.

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An address on the above subject was recently delivered to a gathering of bankers by Mr. Frederick D. Kilburn, superintendent of the banking department of New York State. As an advocate of safe and conservative business methods, Mr. Kilburn is well known in the States, and his argument, favouring as it does the abolition of interest upon money which is in daily employment in the business of the country and subject to call, is worthy of reproduction even in Canada, where we are too prone to boast of close adherence to the sound principles of banking.

The following is Mr. Kilburn's address:—

I hardly believe there is a banker in the State who does not deprecate the practice, nor who would not do away with it, at least so far as his own bank is concerned, if he could see his way clear to do so without, as he believes, serious injury to his own institution; nor one who does not believe it to be contrary to sound principles of banking, and, on the whole, detrimental to the banking interest of the whole State. Possibly there may be here and there a banker whose vision is so circumscribed by the narrow limits of what he believes to be directly in the interest of his own bank (losing sight of the larger and surer benefits which would come through a general abolition of the practice), who regards it as not only a good thing for the bank, but a blessing to the depositors.

The practice has grown to such proportions that in many sections of the State it is relied upon as the chief means of attracting deposits. This competition, which in many instances has developed into an unseemly scramble, is often accompanied by undignified, misleading, and in many instances, absolutely false advertising; and in this particular I do not confine my remarks to banks alone, but include some of the trust companies of the State. Of course it would be improper for me to par-

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ticularize. Your own observation will verify my statement and perhaps suggest the institutions to which I refer.

The banker's profession is one of dignity, and partakes largely of a fiduciary character. His business is not alone to swell the aggregate of the bank's resources, but rather to conduct his institution in a way that will accommodate the public convenience and most surely safeguard the deposits committed to his care. The province of a bank, and the underlying idea and intention of its organization, is not to pay interest, but to get interest, to serve the public, and conservatively and safely invest the funds committed to its care, not forgetting, of course, a fair return upon its capital, based entirely upon conservative and safe business methods. Any bank which departs from this general policy enters the field of unsafe practices and speculative adventure.

My intention is not to condemn entirely the payment of interest by banks and trust companies. My contention is against the payment of interest on commercial deposits, the money used by merchants, tradesmen, and manufacturers, in the daily transaction of business, whether this money is deposited in banks or trust companies. Were I to go further than this, my task of accomplishing any reform would be transformed from a faint hope of success to a certainty of absolute failure.

Savings banks are organized for the express purpose of gathering and investing the savings of what I have frequently termed the "provident poor." These institutions are of an eleemosynary character, and best fitted for this service. Accounts of this kind should not be taken by banks or trust companies, but should be left to the care of those institutions which the law contemplates as their special custodians.

It is entirely proper that trust funds should be deposited in trust companies, and that a rate of interest, based upon existing conditions, should be paid upon them. These are not the kind of deposits that I am speaking of. What I decry, and the practice which I condemn, is the payment of interest upon money which is in daily employment in the business of the country, and which is, therefore, necessarily subject to immediate call, and frequent and violent fluctuations.

I, of course, recognize the impossibility of anything being accomplished unless it is a result of general and combined effort. I am aware of the difficulties attending the effort of any single institution located in a place where other institutions will not join in the effort. The only way that any substantial result

can be accomplished is through united action and a general recognition of the un wisdom and unsafety of the practice.

Close and careful study of this subject and familiarity with conditions throughout the State, extending over a period of eight years, has thoroughly convinced me that the banks themselves, as a whole, are losing money because of this practice. When we consider that the payment of interest is a continuing and fixed charge, that a certain amount of reserve must be kept against deposits, that an anxiety to make loans and keep money earning sometimes outstrips conservative judgment, we can readily see that, on the whole, the practice is a losing game.

The places where competition of the kind is greatest are the places where banking is least successful, where the least conservatism is observed, and the greatest hazards are indulged in. The public is vitally interested in the absolute soundness of the institutions with which it does business. This is of vastly more importance to the people than the interest which they may receive upon their balances, and, as a rule, all the profit which they gain from this interest is at least equalled by the consequent larger rate of interest which they are compelled to pay for their loans and discounts; or, if this is not always so, these benefits of interest in many cases are more than offset by the failure of the banks, traceable directly to the payment of unwarranted rates of interest and to loans made through an over-anxiety that money drawing interest from the bank should be made to pay the highest return possible to the bank.

I am, therefore, convinced that the best interests of both stockholders and depositors demand, if not the entire abolition of interest upon commercial deposits, at least a very material reduction in its rate. If this were brought about, and if, in connection with it, the banks in any locality where it may not be possible to entirely do away with the payment of interest could come to a mutual understanding, and agree upon some moderate rate, and thus do away, at least in a great measure, with the temptation to make undesirable loans, the banking interests of the State would be on a firmer and safer basis, and would more surely fill the purposes for which they were organized, and more completely accommodate and serve the public.



## QUESTIONS ON POINTS OF PRACTICAL INTEREST.

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**R**EPLIES may be obtained, through this column only, to enquiries of Associates or subscribers from time to time on matters of law and banking practice, under the advice of counsel where the law is not clearly established.

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### *Hypothecation under Section 74—Should there be Invoices?*

**QUESTION 591.**—Are hypothecations under Section 74 reading: "All goods stored in such and such warehouses" legal, or should there be invoices showing quantities? I have read over the section carefully, and so far as I can judge such hypothecations are valid.

**ANSWER.**—There should be invoices or schedules fully descriptive of the goods annexed to and mentioned in the hypothecations, or such descriptions should be in the hypothecations itself.

### *Acceptance—Time within which to Accept.*

**QUESTION 592.**—A bank presents a draft upon Jones at his office, Jones being temporarily absent and there being no one there with authority to accept or refuse the bill. Has Jones the right to have the bill left at his office for 48 hours to give him an opportunity to accept? Or at least, should not the bank notify him to call upon them and accept within two days. (As per Section 42—amendment to Bill of Ex. Act, passed May 15th, 1902.) Has the bank legal right to protest bill immediately after presentation (the drawee not having seen it, being absent)? and if they have the right, is it not very unusual to act so sharply in such cases?

**ANSWER.**—We do not consider the holder is in the position required by Article 43 (a), viz., of not being able to obtain the acceptance as prescribed by the Act, and should not protest immediately.

*Revision of Question 564.*

The design of Section 74 appears to be to facilitate the handling of Canadian products, and it is very questionable whether the agricultural produce of another country would be held by our courts to fall within scope of the section, especially as there has been already demonstrated an inclination to interpret the section very strictly. We therefore recommend that until jurisprudence has definitely settled the point advances against such security should not be made.

; *Cheque—"In Full of Account."*

QUESTION 593.—Is the enclosed cheque a legal receipt for an account that is fully paid up, or is the phrase "In full of account" simply a memorandum for the person issuing the cheque?

ANSWER.—The cheques as submitted, when paid and cancelled by the bank, is *prima facie* evidence of the payment of the amount of a debt of \$100.16. The phrase "in full of account" quoted as memorandum only for the drawer, and would not alone bind the payee beyond the amount of the cheque.

*Cheque of Assigned Estate—Assignee's Endorsement Necessary.*

QUESTION 594.—John Smith & Co. give an assignment of book-debts to B and afterwards assign to C for the benefit of creditors. Subsequently the book-debts (some of which had originally been handed by Smith & Co. to solicitors for collection on their account) are purchased by D at public auction. D subsequently presents at the drawee bank a cheque of the solicitors payable to the order of Smith & Co., and endorsed by a member of that firm, in the firm's name, and demands payment, stating that the cheque is for funds collected on account of book-debts. Being unable to communicate readily with the makers of the cheque, should the bank require the assignee's endorsement before paying?

If D's contention were correct the cheque should, of course, have been payable to him, but this fact does not alter the bank's position in the case.

ANSWER.—The endorsements as made being insufficient by reason of the termination of the partnership, the assignee alone could effectively endorse.

*Liability for Acts of Agent.*

QUESTION 595.—A customer lodges a bill for collection with A (Branch of Finance at Blankton, Ont.). The bill is payable at B, where there is no chartered bank, and it is sent for collection to a private banker, at that place, who remits in settlement his cheque upon his banker at C. This cheque is crossed "Negotiable without charges at Toronto," to which point A remits it. It passes through the Clearing House at Toronto, but before it reaches C, the private banker has failed, and his cheque is refused. Had A the right to charge his customer?

ANSWER.—A. is liable for the acts of his agent.

*Section 74—Advances on Lumber.*

QUESTION 596.—Can a bank advance under Section 74 on deals and scantling purchased and held by a mill owner though not manufactured by him?

Reason for question:—In decision, *The Molsons Bank v. Beaudry*, 11 Que., K.B. 212, also *Bowes v. Lord Ravensworth*, 24 L.T.C.P., pages 73, in the English Courts.

ANSWER.—Under authority of *The Molsons Bank, Beaudry 11, Rapperts Judiciaires Officiels de Québec*, (R.J. Q.)—page 212, it cannot be done under Section 74. Sub-Section 2.—and the case put does not come within provisions of Sub. Section 1, of Section 74.

## LEGAL DECISIONS.

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### EWING AND DOMINION BANK.

THE judgment of the Supreme Court was rendered by Girouard, Davies and Killam, JJ.; Sedgewick and Nesbitt, JJ., dissenting. The following are the opinions of the majority of the judges:

Girouard, J.—We have given to this case all the attention which its importance demanded. It was fully discussed and the written opinions pro and con were duly considered. It has no precedent in this country and it can hardly be said that the few decisions rendered abroad are exactly in point. They are fully reviewed by my learned colleagues, and in the few remarks I propose to make I do not intend to refer to them. The question involved is one altogether of law. The fact that we have not been able to give an unanimous assent to the judgment of the two courts below shows that it is not free from difficulty.

Speaking for myself, I cannot satisfy my mind that when a business man, familiar with banking operations, their meaning and scope, is informed, according to banking usages, that his name is being used as maker of a note in a bank, evidently for cash credit either already made or to be made, he is under no obligation to reply promptly, at least within a reasonable time, that it is used without his authority, or even that it is a forgery. It is argued that there is no business relation between him and the bank to create such a duty. I believe, on the contrary, that business relation exists, created without his knowledge, it is true, by force of circumstances, but the introduction of his name, even if unwarranted or forged, brought him into contact with the bank and created business relationship which can end only by repudiation or payment in due time. In such a case every merchant or business man owes some duty to his fellow members of the commercial community. Is he not under obligation to cause no damage by his fault or negligence, either by acts of commission or omission? I have always been under the impression that this elementary

principle was held sound in every country, in England as well as everywhere else. I cannot conceive that the appellants ought not to be punished for the omission to do something which a fair and reasonable man, guided by those considerations which regulate the conduct of commercial and even ordinary human affairs, would do. This punishment may in some cases, and always in countries governed by the civil law, consist only in the payment of damages, but according to English law, forms an estoppel, which prevents the wrongdoer from disputing his liability for the full amount of the claim, for he is presumed to have acquiesced in it. The rule may look harsh and arbitrary, but I must confess that it is highly moral and eminently healthful and salutary. The appellants at least have no excuse for complaining of the severity of this law. They knew that their duty was to give a prompt reply, namely, on the 16th October, and I should say both by letter and by telegraph or telephone, and the evidence shows that if they had done so, the loss would have been only partial. Not only were they in fault for not answering the bank, but also, and perhaps more so, for concealing what they knew of the forgery. Their lawyer advised them at the very first to repudiate their signature. They themselves, by telegraph and letter, informed the forger on the 16th of October that they will act at once. They did not do so for a few months; they kept silence with the bank till a few days before the maturity of the note. Why they broke it at such a late hour, when nothing could be done by the bank to protect its position, it is impossible to imagine, if the contention of the appellants be correct, that there was no duty for them to speak. They had some reason to expect that the forger would be able to make the loss good; the Thomas Phosphate Company might materialize and come to his assistance, and consequently they limited their exertions to save him, if possible; but, as is usual in similar cases, they were doomed to disappointment and became the victims of their misplaced confidence and exaggerated kindness. They must suffer for the consequences of their conduct, which amounts to fraud in law, for their inaction or action—either word meets the case—is a fraud in law. With the judges of the two courts below, the majority of this court has come to the conclusion that they are estopped from setting up the forgery of their signature, and that they must pay the full amount of the note.

Davies, J.—I would have been well content to have rested my judgment in this appeal upon the able and clear reasons given by Osler, J., in delivering the judgment of the Court of Appeals from which the appeal is taken. As, however, there is a difference of opinion amongst the members of this court I have thought it well to add a few observations of my own. The facts of the case are not in dispute, and as stated by Osler, J., as follows:

One Wallace was the manager of, and perhaps interested in, a business carried on by Walter C. Bonnell, under the name of the Thomas Phosphate Company, which, previous to the 14th August, 1900, had done some banking business with the plaintiffs. On the 15th August, Wallace procured the note now sued on to be discounted by the bank for the Phosphate Company, and the proceeds were placed to the company's credit. On the 15th and 16th August cheques were issued by the company against the proceeds of the deposit and other small deposits, payment of which left a balance to their credit at the close of the business on the 15th of \$1,611.55; on the 16th of \$1,355, and on the 17th of \$84.

On the 15th the bank wrote to the defendants, who reside in Montreal, in the following terms: "Toronto, August 15th, 1900. You will please take notice that your note for \$2,000 to the Thomas Phosphate Company, falls due at this bank on the 17th December, 1900, and you are requested to provide for the same, A. P., Assistant Manager. To Messrs. Ewing & Co., Montreal."

This was received by the defendants on the morning of the 16th August. To the bank they made no response, but between themselves and Wallace an active correspondence by telegram and letter was kept up, beginning on the 16th August and ending on the 8th of December; on the defendants' side at first asking for an explanation "before advising Bank," and then urgently insisting on the note being taken up; while Wallace's letters are filled with the usual regrets and excuses for his conduct, and vain promises to settle the note and relieve the defendants.

On these facts two questions arise. First, was there any imperative duty on the part of the appellants, Ewing & Co., on the morning of the 16th August, when they received the above letter or notice from the bank, to at once notify the bank that

the note was not genuine? and if not, did such imperative duty arise at any time afterwards and if so, when? The appellants strongly contend that at no time did such imperative duty arise, but that if they were wrong, and it did arise it did not do so until after the 20th or 21st August, when they had a personal interview with Wallace, who then practically confessed the forgery to them. I am quite at a loss to follow the reasoning which, assuming the duty to exist, at all, would postpone it till the 20th or afterwards. It seems to me that if there is a duty at all that duty arose immediately on receipt of the notice from the bank of the 15th August. If, under the circumstances, there was any room for reasonable doubt as to the genuineness of the signature, or any reason to believe that a mistake had been made in the notice which enquiries would clear up the appellants would have been entitled to the necessary time to make proper enquiries. But it does not appear to me that any such doubts or room for doubts existed. Both William Ewing and James H. Davison, the only members of the firm of Ewing & Co., were examined at the trial and they both state that they neither of them ever authorized any other person to sign the firm's name to any note; that they never used or gave any accommodation paper in their business, or signed any blank notes, and that the note in question was a forgery. They knew they had never given or authorized the giving of such a note as the bank had advised them of, and the only reason given for not immediately notifying the bank was that given by Mr. Ewing, that he thought it might be a draft made on them and not a note. I cannot myself accept this as the true explanation. The notice says nothing about a draft and does not use any language from which a business man could fairly believe a draft was intended. If it was a mere draft, a notice would not have been sent by the bank, but the draft itself would have been forwarded for acceptance. The appellants knew it could not be an acceptance any more than a note for they had never signed or authorized the signing of either, and the fact that in the telegram sent by them that day to Wallace, the managing clerk of the Phosphate Co., and also in the letter confirming that telegram, they make no reference to any draft or to the possibility of there having been any such mistake made, but speak of the document held by the bank as a note, and repudiate the fact that the Phosphate Company held any note of theirs, satis-

fies me that they were not under any doubts or delusions on the subject at all. However, be that as it may, they got a telegraphic answer from Wallace that evening at 6.14 p.m., which could leave no possible doubt in their minds that the document was a note and not a draft, and that it was in the hands of the bank and was, as they knew, a forgery. Assuming for the sake of argument, that Ewing & Co. were justified in waiting till they had received Wallace's answer, they knew on its receipt that the bank, respondent, was in possession of a note of theirs which they must have known was forged for \$2,000, and which they had been formally "requested to provide for" at maturity. A whole day has been lost in making a useless enquiry. But even assuming that the duty to notify the bank of the forgery did not arise until the receipt of Wallace's telegram, what was to have prevented this notice being then sent either by telephone or telegraph. The counsel for the appellant contended that, assuming the duty existed or arose on the receipt of the telegram from Wallace, it would have been discharged by the writing of a letter in the ordinary course of mail on the following day, the 17th, which could not, if written and posted in business hours, reach its destination until the 18th, when it would be useless as all the proceeds arising from the discount of the forged note had then been paid out by the bank. But I cannot accept any such proposition as that put forward by the appellants' counsel. Given the existence of an imperative duty; given the fact that it did not arise till after the receipt of Wallace's telegram, after business hours on the evening of the 16th, I ask on what principle can it be discharged or fulfilled by mail alone. Is there any magic in the "mail" which makes it alone the proper vehicle for transmitting business information. Is there any reason why the ordinary mail or post having been missed, resort should not be had to the telegraph, or in some circumstances, the telephone? Between the cities of Montreal and Toronto there existed telephonic and telegraphic communication as well as mail. Is it to be held by the courts that in the present day, where such a proportion of business is carried on by means of the telephone and telegraph, that in a matter of urgency and moment involving some thousands of dollars, and where a few hours' delay might be fatal, resort must not be had to one or other of the speedier methods of communication, but must be confined to the mail alone. Is it



reasonable that business customs and habits in a matter of this kind should be ignored? I do not think so, and am satisfied that if the imperative duty existed at all, it should have been discharged on receipt of the bank notice and if delay was sought to get information from the suspected forger, then, at the expiration of that delay, notice should have been given to the bank either by telephone or telegraph, which would have reached them on the morning of the 17th, and while the larger part of the proceeds of the note were still lying in the bank and subject to its control.

Mr. H. A. Osler, in his argument for the appellant, laid much stress upon the form and character of the notice sent by the bank to Ewing & Co., and urged that too much importance had been attributed to it by the Court of Appeal. I pass by all technical criticism as to its form, and looking at its substance I find it furnishes Ewing & Co. with all possible information they could require as to date, amount, due date, payee, maker, etc., of the note, winding up with a request that they should provide for the same. Nothing is wanting to inform them that a note professing to be theirs was in the hands of the bank, and was being treated by them in the ordinary business way as a genuine note, and that the bank looked to them for payment. They knew it was a forgery. As between them and the bank their knowledge was exclusive. Instead of imparting it to the bank on receipt of its letter or notice they enter into prolonged telegraphic, written and personal communications with the forger, lasting up to within a few days of the note falling due, when, in reply to the usual notice requesting payment, they, for the first time, repudiate the note. From their silence after the first notice sent them the bank naturally assumed the genuineness of the note, and acting on that very natural assumption paid out the larger portion of the proceeds of the discount of the note, all of which would have been saved to them had Ewing & Co., on the 16th, or on the beginning of the business hours of the 17th, given them the information he should have given.

Again, it is said that this is a suit to prevent a man from speaking the truth, and to compel him to pay a note he never made or authorized. But the answer is simple. The very basis of the doctrine of estoppel is that a man may, by his representations or by his silence, or his conduct towards his fellow-man,

if followed by the latter's consequent loss, prevent himself from setting up that to be true which he had induced another to believe was not true. There would be no wrong in compelling a man to pay a note he had never signed or authorized if he, by his representations or silence, or conduct, had led another to part with his money in the belief that the note was genuine.

Then comes the important question whether there was any duty in the matter at all on the part of Ewing & Co. to give information to the bank of the forgery when they received the notice of the 15th August. It is argued that as there was no business relationship existing between the bank and Ewing & Co. at the time such as that between a bank and one of its depositors or customers, so there was no duty to respond to the bank's notice. It is true that such a relationship did exist between the parties in the case of the *Leather Manufacturers Bank vs. Morgan*, 117 U.S., 96. In that case it was laid down by the Supreme Court of the United States that where cheques had been drawn by the plaintiff, a customer in the bank, and after having been fraudulently altered had been paid by the bank and charged up against the plaintiff, if the alterations might have been discovered by the latter by the examination of his pass book, and advised of in time to enable the bank to take certain action which might have prevented it sustaining loss, and this had not been done, he would be estopped from claiming for the sums paid out on the altered cheques. The basis on which the doctrine of estoppel rests is discussed in this case at great length, and the rule laid down by Parke B. in *Freeman vs. Cooke*, 2 exchq., 654-663 approved, of, namely, that "if whatever a man's real intentions may be he so conducts himself that a reasonable man would take the representations to be true and believe that it was meant that he should act upon it, and did act upon it as true, the party making the representation would be equally precluded from contesting its truth, and conduct by negligence or omission when there is a duty cast upon a person by usage of trade or otherwise to disclose the truth may often have the same effect."

Both parties profess to rely upon this rule in this case, though I cannot find that any one of the limitations mentioned in it express or suggest the existence of the relationship of banker and customer or similar relationship as necessary to create the duty the neglect of which imposes the liability. It

speaks of a neglect of duty cast upon a person by the usage of trade or otherwise to disclose the truth. I fail to appreciate the argument which would confine this duty to cases where such relationships already exist as between banker and customer or seller and buyer. It does seem to me that in such a country as Canada, where such a large proportion of its business is carried on by credit evidenced by drafts and notes, which are discounted by one or other of the chartered banks of the country, the usages of trade which creates the duty apply to all persons engaged in trade, who are notified of the holding by one of these banks of a note or draft professing to be theirs. I cannot believe that such a duty would exist as between the bank and Ewing & Co. if the latter was a regular customer of the former and would not exist otherwise. It seems to me the duty naturally arises out of the usages of trade as they exist. Banks do not confine their discounts to those of their own customers only. It is known to every one engaged in trade that a large part of a bank's business consists in the discounting for its customers of commercial paper professing to be that of other merchants or traders. And when a business man receives such a notice from a bank, as Ewing & Co. did in this case, if such notice contains information of a forgery and fraud being practiced upon a bank, in the unauthorized use of the name of the person or persons notified, the latter are bound in every principle of justice and right dealing between man and man, and in accordance with the usages of trade, within reasonable time to give the bank notice of the fraud. Any other rule would seem to me to be fraught with grave danger; would generate want of confidence in the ordinary business relations of life and would offer a premium upon gross business negligence. I think Lord Campbell has expressed the true rule to be followed in *Caircross vs. Lorimer*, 3 Macq., 827, at p. 830, in the following terms:—"I am of opinion that, generally speaking, if a party having an interest to prevent an act being done, has full notice of its having been done, and acquiesces in it so as to induce a reasonable belief that he consents to it, and the position of others is altered by their giving credit to his sincerity, he has no more right to challenge the act to their prejudice than he would have had if it had been done by their previous license."

Reason and common sense would convince me, if positive authority was wanting, that as between commercial men and

banks or other kindred institutions there exists duties with respect to business notices and conditions which have no application to, and are not governed necessarily by the principles and rules which control in the cases of other letters and notices on private or personal subjects. An example of such letters is to be found in the case of *Wiedman vs. Walpole* (1891), 2 Q.B., 534. But the law which justifies and approves of a man ignoring impertinent or threatening letters relating to his private life or moral character, to which he is under no moral or legal obligation to give any answer, necessarily adopts a different rule with respect to ordinary business letters on business matters. Mere silence *per se* on the part of one who should speak is not, I grant, sufficient as an admission or adoption of liability or as an estoppel to prevent him denying his signature. But such silence, coupled with material loss or prejudice to the person who should have been informed, and which prompt and reasonable information would have prevented, will so operate. Such a person under such conditions comes within the rule that where a man has kept silent when he ought to have spoken, he will not be permitted to speak when he ought to keep silent.

The case of *McKenzie vs. British Linen Company*, 6 A.C., 82, is one where no previous direct business relationship existed between the parties and has been appealed to by both parties as authority for their respective contentions. The actual decision in that case was that McKenzie who had been sued as an endorser of a note on which his name had been forged was not liable though he had remained silent for a fortnight after he had received notice of his name being on the note. But the reasons of the House of Lords for so holding was, that the position of the bank was in no way prejudiced or altered during the time McKenzie had remained silent. I think it is quite clear that in the judgment of all of the Law Lords who delivered opinions in that case that had the position of the bank been materially prejudiced or injured during the time of Mr. McKenzie's silence, he would have been held estopped to deny his signature and liable to the bank. The language of Lord Watson, at page 109, seems very clear. He says:—"It would be a most unreasonable thing to permit a man who knew the bank were relying upon his forged signature to a bill, to lie by and not to divulge the fact until he saw that the position of the bank was altered for the worse. But it appears to me that it would be equally contrary to justice to hold him responsible

for the bill because he did not tell the bank of the forgery at once, if he did actually give the information, and if when he did so, the bank was in no worse position than it was at the time when it was first within his power to give the information."

The reasoning adopted by all of these Law Lords in coming to the conclusion they did in that case convinces one that in all such cases the imperative duty of promptly giving notice and repudiating a liability wrongly attempted to be placed upon a man does arise whenever he is informed of the facts; second, that failure to discharge it will not necessarily involve liability unless there is also proved the material prejudice which compliance with the duty might have prevented, and, thirdly, that where both conditions co-exist, namely, the silence of the person whose duty it is to speak and the material loss or prejudice of the bank or person who should have been notified which might or would have been averted had the notice been promptly given, then the party neglecting his duty is estopped from denying his signature and his liability follows. The extent of that liability has been determined by the Judicial Committee in *Ogilvie vs. West Australian Mortgage and Agency Corporation*, 1896, A.C., at page 270, as not limited to the actual amount of the loss sustained by the holder of the note, but to entitle him to have his plea of estoppel sustained to its full extent. By this decision we are bound, however, strong as the argument may be, to limiting the amount recoverable to the actual loss sustained through the neglect of the party to give the bank notice of the forgery. This case is also most important as determining that the material loss or injury which the bank or holder of the note sued on, must show he has sustained need not necessarily be shown to be the direct and necessary consequence of the defendants act or silence. The Judicial Committee there determines, page 270, that, "if by keeping silence and allowing the forger to escape from the colony and the jurisdiction of its courts, the appellant had violated his duty to the bank," "these circumstances would, in themselves, have been sufficient to show prejudice entitling the bank to have their plea of estoppel sustained to its full extent." There silence of the person whose duty it was to speak and the loss which might arise to the bank by reason of the forger's escape had no necessary relation or connection. The escape of the one party was not a necessary consequence of the

silence of the other, and yet the Judicial Committee maintained the liability arising from estoppel. Here it is argued that there is no necessary relation or connection between the silence of Ewing & Co., and the paying out of the \$1,300 or \$1,400 on the 17th. And yet if they had broken their silence and discharged their duty the bank would not have lost the money. I can see no distinction between losing the money in the one case and losing the opportunity of taking proceedings against the forger, either civilly or criminally, or both in the other. The loss in either case could hardly be said to be the direct and necessary result of the neglect of duty of the defendants. The most that can be said is that if the duty had been discharged the loss would, or might have been prevented or averted.

I think the appeal must be dismissed with costs.

Killam, J.—In my opinion this appeal should be dismissed.

For the reasons so well stated by Mr. Justice Osler, the case appears to me to come directly within the principle upon which silence under certain circumstances gives rise to an estoppel.

It was not a case in which the defendants had merely learned of the existence of a note on which their signature had been placed without authority, and had cause to apprehend only that some unknown person might possibly advance money without notice of the falsity of the signature, which is the case, put in Mr. Bigelow's words.

The bank directly notified them that their note would fall due at its office on a certain date and requested them to provide for the same. This distinctly implied that the bank had an interest, either of its own or on behalf of some one else, in the payment of the note and in its genuineness.

While there was no intimation that the bank had acquired or was proposing to acquire the note for value, the defendants, as men of business, would know that the bank might have discounted the note and have the proceeds still at the customer's credit, or that it might make advance upon it. They would know that an immediate repudiation would enable the bank to withhold payment of any portion of the proceeds not actually paid out, or of any sums not already advanced. They knew that they had made no such note, that they had given no authority for the signature. They could at once repudiate it,

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and they did so in their telegram to Mr. Wallace. No further information was necessary for that purpose.

While the bank manager placed the proceeds to the credit of the customer without inquiry, and took no precaution against their being paid out before he could hear from the defendants, the bank did act upon the defendants' silence in the sense that it did what, it should properly be inferred, it would not have done if the defendants had at once denied the signature; it allowed the balance of the proceeds to be withdrawn.

The decision in *McKenzie vs. British Linen Co.*, 6 A.C. 82, proceeded distinctly upon the view that all the mischief was done before either bill could have been repudiated. But I think that sufficient appears to indicate that the learned lords would have been of the opposite opinion if the proceeds had remained at the customer's credit sufficiently long to have enabled the repudiation to be communicated before their withdrawal. Lord Selborne, L.C., said (p. 92): "There is no principle on which the appellant's mere silence for a fortnight, during which the position of the respondents was in no way altered or prejudiced, can be held to be an admission or adoption of liability, or to estop him from now denying it."

Lord Blackburn said (p. 101): "Certainly I think that his not telling the bank on the 15th of July nor till the 29th of July that it was a forgery, and so letting them continue in the belief that it was genuine, if he had not induced it, could not so preclude him if, as I think was clearly the fact here, the bank neither gave fresh credit in the interval nor lost any remedy which, if the information had been given earlier, they might have made available."

And Lord Watson said (p. 109): "It would be a most unreasonable thing to permit a man who knew the bank were relying upon his forged signature to a bill to lie by until he saw that the position of the bank was altered for the worse."

In the interests of business morality, I think that the conclusion of the Court of Appeal upon this point should be supported. It is well warranted by the doctrines laid down in *Freeman vs. Cooke*, 2 Ex. 654. It does not appear to me to be opposed to any previous judicial decision, or even to judicial opinion directly applicable.

As the appellant's counsel has expressly abstained from questioning the conclusion that the estoppel, if existing, must apply to the full amount of the note, I say nothing upon that point,

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